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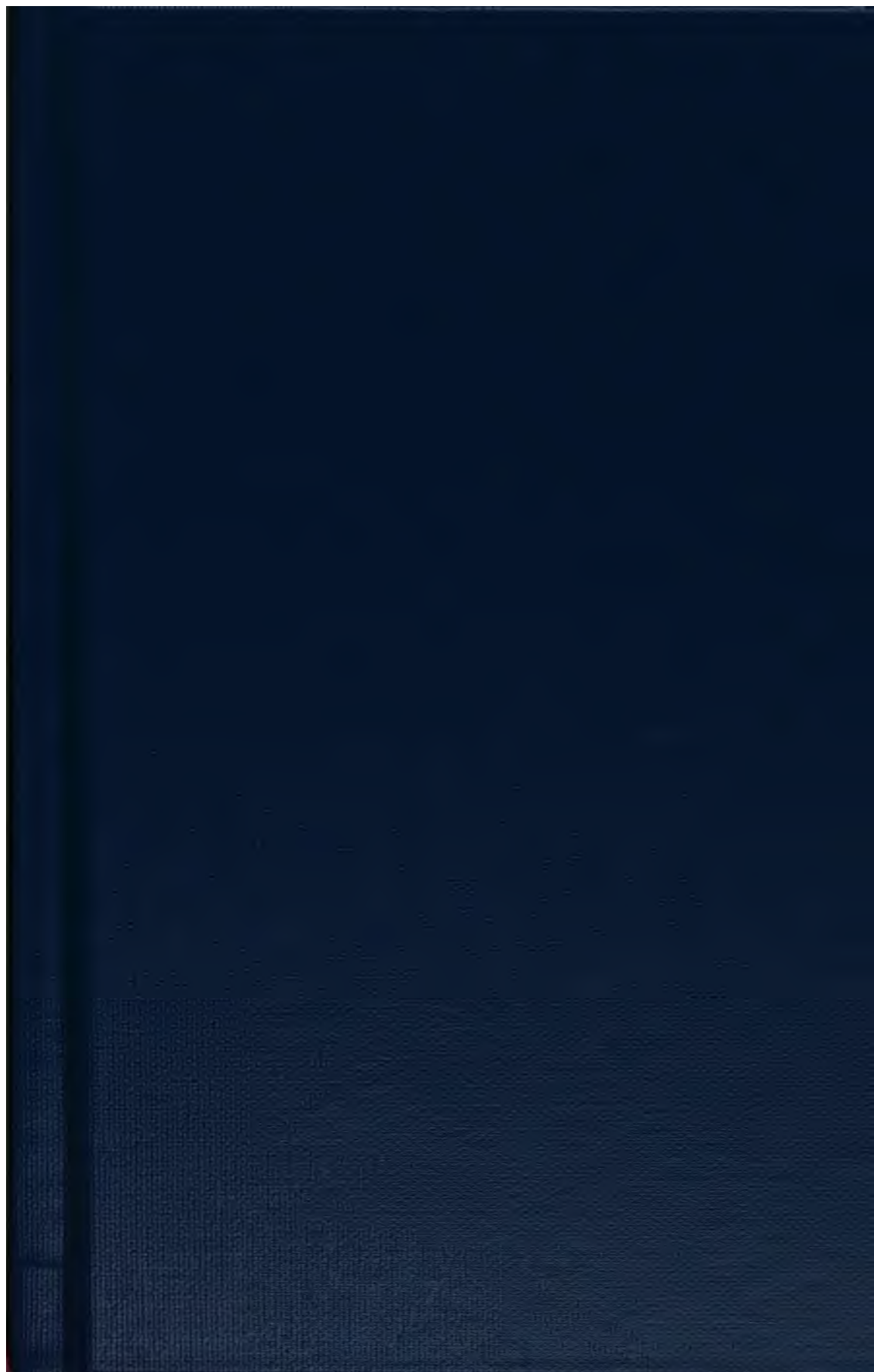
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HEARINGS
ON
INTERNAL-REVENUE REVISION

BEFORE THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

TOGETHER WITH
CERTAIN PORTIONS OF THE
PROCEEDINGS OF THE COMMITTEE
IN EXECUTIVE SESSION

INDEXED



WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

COMMITTEE ON WAYS AND MEANS.

HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

JOSEPH W. FORDNEY, *Michigan, Chairman.*

WILLIAM R. GREEN, Iowa.	CLAUDE KITCHIN, North Carolina.
NICHOLAS LONGWORTH, Ohio.	JOHN N. GARNER, Texas.
WILLIS C. HAWLEY, Oregon.	JAMES W. COLLIER, Mississippi.
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HENRY W. WATSON, Pennsylvania.	
ALANSON B. HOUGHTON, New York.	
THOMAS A. CHANDLER, Oklahoma.	

ERNEST W. CAMP, *Clerk.*

EXPLANATORY NOTE.

Public hearings on a general revision of the internal-revenue laws before the Committee on Ways and Means of the House of Representatives were commenced on July 26 and concluded July 29, 1921. This volume is a revised and corrected compilation of the preliminary print. Certain proceedings of the committee in executive session are included as an appendix.

To facilitate reference to the subject matter of the hearings the statements and papers submitted have been grouped, as far as feasible, under headings suggesting the title or paragraph of the present law to which they refer.

E. W. CAMP, *Clerk.*

AUGUST 15, 1921.

1

1

INTERNAL-REVENUE REVISION.

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
July 26-29, 1921.

The committee met at 10 o'clock a. m., Hon. Joseph W. Fordney (chairman) presiding.

INCOME TAX.

The CHAIRMAN. Gentlemen, we will hear Mr. Marsh, if he is in the room.

BENJAMIN C. MARSH, REPRESENTING THE PEOPLE'S RECONSTRUCTION LEAGUE AND THE FARMERS' NATIONAL COUNCIL.

Mr. MARSH. I want to urge, Mr. Chairman, upon this committee that in view of the fact that there are between 4,000,000 and 4,500,000 people out of employment and that agriculture is in the worst condition it has ever been in in the history of our Nation, that you will repeal all taxes upon consumption. I am not going to say a word against the sales tax, not a word. My hope is that this sales tax is dead from now until Gabriel blows his horn. You can not arouse it, and it will be finally settled probably the next time it goes to the people. I do not want to say a word about the un-American and wicked proposal to take the tax off the multimillionaires of this country and to put it upon the men out of employment and the farmers who can not keep their children at school because they can not get money enough to buy clothes to send them to school. The farmers in a dozen or 15 States resent any additional burden being placed upon them and they are undertaking a movement for the next political campaign.

I want to tell you, Mr. Chairman, this: During the war I came to this committee on behalf of my wife and personally asked that you double the tax on us. We were working and were both willing to pay a double tax.

The CHAIRMAN. Whom do you refer to?

Mr. MARSH. Both political parties, for both are responsible.

The CHAIRMAN. What do you mean when you say that—how long ago?

Mr. MARSH. Since the Civil War, ever since Abraham Lincoln in his famous letter to Seward prophesied the vast aggregations of capital and great corporations

I want to read to you from Commerce and Finance under date of September 11, 1918, a statement as to the aggregation of capital in this country and point out that America can raise all the taxes it needs from about four chief sources, from taxes on incomes, from

taxes on estates, from taxes upon corporations' profits, and from taxes upon the value of land and other natural resources speculatively held. Permit me to read you first some figures which I am sure you will be interested in. There were 22,696 American millionaires, as estimated in Commerce and Finance. We had about 106 or 107 million people at that time. These 22,696 people had wealth estimated at \$68,056,000,000. I will use round figures, with your permission. At that time this ~~same~~ conservative paper, it was then printed at 15 Wall Street, estimated the national wealth at \$250,000,000,000. To-day it estimates the national wealth at \$500,000,000,000, and on that basis these 22,696 persons have a combined wealth of about \$136,000,000,000, while there are hundreds of thousands of farmers who can not get any credit to buy their seeds or harvest their crops. There are millions of people in America to-day walking the streets out of work.

The CHAIRMAN. You are speaking of the existing law?

Mr. MARSH. Yes, sir.

The CHAIRMAN. Address the Democrats, please.

Mr. MARSH. I am not surprised that you do not care to take any responsibility for that law and therefore I hope that you will not make yours any worse.

Mr. GARNER. The gentleman from Michigan voted for the existing law?

The CHAIRMAN. Unquestionably.

Mr. MARSH. You are now taking more taxes from the unemployed and from absolutely broken farmers than you are from John D. Rockefeller.

As to the tariff act, I should like to suggest that you will have another whack at it, and I think that you should eliminate the \$500,000,000 additional consumption tax levied thereby, mostly on the workers.

The CHAIRMAN. You do not want the tariff law passed?

Mr. MARSH. No.

The CHAIRMAN. That is in the other body?

Mr. MARSH. I know, but it is coming back here. Let me point out a few facts of what has happened under existing tax laws. With your permission, I will be very brief and will try to keep within the 20 minutes, but I know that you are merciful—

The CHAIRMAN (interposing). Fifteen minutes is the maximum.

Mr. MARSH. Concerning the taxes upon transportation and other facilities, insurance, beverages, cigars, tobacco and manufactures thereof, admission to movies, theaters, etc., and dues, excise and stamp taxes, and customs, these amounted in 1920 to \$1,458,317,126. This is an average per capita of \$13.79, or \$68.95 for a family of five. That is a much higher rate than you tax the millionaires. Why, I do not know. See what has happened under this tax—1918 is the last year for which figures are available. The figures have come out for 1919, but I could not get them into shape to give you the figure that I would like to.

Each of the 245 individuals who received an income during 1918 of \$500,000 or more, had on the average an income of \$399,359 left after paying his income tax in 1919, while the 3,013,815 persons and families having incomes of \$1,000 to \$3,000 had an average of only \$1,926 left.

The 245 persons who had an income of \$500,000 and up to \$50,000,000, therefore, had left on the average 207 times as much income apiece, after paying their income tax for that year, as the 3,000,000 individuals and families who had incomes of \$1,000 to \$3,000. Those with incomes of \$3,000 or less subject to the income tax constituted 68.11 per cent of the total number making returns of incomes last year. Now, you talk about levying a heavier tax rate upon unearned income than upon earned income. You do not need to discuss that, because all of the big incomes in America are chiefly unearned incomes. They are the result of some special privilege, created, retained, strengthened, and extended by acts of Congress and of State legislatures. In 1918, of all the persons receiving an income or reporting an income of from \$1,000 to \$3,000, only one-eighth of those incomes were derived from property, whereas seven-tenths, on the average, of the income of those in receipt of an income of \$500,000 to \$2,000,000 was derived from property, and nearly 96 per cent of the income of those in receipt of \$2,000,000 and over, came from property. Now, you have 23,000 millionaires, owning \$136,000,000,000 worth of property in this country. That is the estimate of a very conservative paper that I have—

The CHAIRMAN (interposing). Are you not sorry that you are not one of those fellows?

Mr. MARSH. If I had earned that return, I would not be sorry, but no man in America can earn any such income.

The CHAIRMAN. I did not say there was any, but I asked if you were not sorry you are not one of them.

Mr. MARSH. I am not sorry, sir.

The CHAIRMAN. You look to me like a man who would handle a million dollars if he could get it.

Mr. MARSH. If I could earn it I probably would. However, I do not think that that is germane to this subject. I am now discussing the question of whether Congress will proceed to lay this tax burden upon these millionaires or upon the millions of workers. I was discussing the question of whether, for the first time in history, Congress will pass an honest and just revenue law. Believe me, the American people are greatly interested in this question, because I know from farm and labor papers with a circulation of nearly five million—

The CHAIRMAN (interposing). I know that the members of the committee will thank you for your compliment.

Mr. MARSH. They are entirely free to put any interpretation upon my remarks that they please, and vice versa. Now, Mr. Chairman, why should we have a sales tax? No one has given a decent reason—

The CHAIRMAN (interposing). We will not discuss that.

Mr. MARSH. That we pass. We will all concede that the American people took the war seriously. They thought that we were going into the war, as the President stated in his reply to the Pope's peace note, to the end that all people should have participation, upon fair terms, in the economic opportunities of the world. Now, if the Government meets its obligations during the current year, it has got to take pretty nearly one-sixth of the total national income; it has got to take nearly one-sixth of the total amount of the earnings of the farmers, of all wage workers, earnings from property, royalties, business profits, dividends, etc. If the Government meets the \$2,347,000,000 of certificates which fall due in November, it must

raise close to \$8,000,000,000, or between seven and a half and eight billions of dollars, and, as I have said, in order to do that you must have nearly one-sixth of the total national income. Now, whom will you take it from? Will you take it from the earnings of the people, or will you take it from those who are so rich that they do not know what to do with their money, and who are looking around with the idea of taking over a bunch of mandates or concessions of that character, as the profiteers of France, England, and Italy are doing and our own want to do?

On an average, the Federal Government takes from ten to twenty times as much in proportion to ability to pay from people with incomes of less than \$1,000—and those people represent a tremendous proportion of the American people to-day—as from the wealthy. We estimate that there are 50 or 60 people with incomes that would amount to probably more than \$1,000,000. I think that the figures of the Internal Revenue Bureau, as given out yesterday, showed that there were about 65 people with incomes of \$65,000,000 or over. There were a good many with incomes of from sixty-five million to seventy million dollars, but, of course, they were people who were worth a billion dollars or more.

Now, the American people are not fooled by this situation at all. If Congress had done as we urged repeatedly during the war, they could have paid the whole cost of the war out of the profits of the war. Of course, however, if they had done that, there would never be another war. We have piled up enormous debts. You had to pay for the war out of current profits. You could never feed a soldier in 1917 from wheat produced in 1918, but you allowed a lot of profiteers to amass about \$20,000,000,000 over and above their taxes. The Democrats did that by and with the advice, consent, and help of the Republicans. It was done by them in mutual collusion against the American people, and the American people, Mr. Chairman, hold party affiliations very lightly.

Mr. LONGWORTH. Whom did you vote for the last time?

Mr. MARSH. At the last election I did not vote. If you want to know whom I would have voted for if I had voted, I am perfectly willing to tell you that I would have voted for the candidate of the Farmer-Labor Party. You are not entitled to that information, but you are welcome to it.

The CHAIRMAN. You have used just 22 minutes time, and you will please retire. I want the record to show that Mr. Marsh occupied 22 minutes time.

BRIEF OF THE PEOPLE'S RECONSTRUCTION LEAGUE, WASHINGTON, D. C.

To a greater or lesser extent all taxation bills in the past have militated against the producers of America and have favored the profiteers. All existing taxes on consumption should be abolished. The tariff bill reported out by this committee is a crime against civilization. The repudiation of the sales tax by many of its proponents in the House is, we hope, genuine and sincere. There are probably to-day at least 25,000 to 26,000 millionaires, possibly more. The figures for 1920 incomes are not yet in detail available, but the reports for 1919 indicate that seven and a half billion dollars can be secured by taxes upon individual incomes, upon corporate profits and upon estates and transfers of property inter vivos, plus a reasonable tax upon vast farm landed estates and city land speculators, as provided in the Keller bill, and a tariff tax upon luxuries.

All existing consumption taxes should go by the board, for there are at least four or five million families in America, representing nearly one-fourth of all our population,

practically broken and in abject poverty through unemployment and the slump in prices of farm products. We ask that you consider the feasibility of levying a rapidly progressive tax upon the capital value of all property, with a reasonably high exemption, as a means of paying the Nation's debt, which is hanging like a millstone about the American people's necks.

If honest collections are made and tax evaders jailed at least \$5,000,000,000 can be secured from taxes upon corporation profits and incomes. The Commissioner of Internal Revenue reports that the net income in 1919 of the 5,332,760 persons and families making income-tax returns was \$19,859,491,448, and the net income subject to the normal tax was \$7,918,046,201. Allowing a reduction during the present year of even one-tenth in net income subject to the normal income tax, the amount subject to the tax would be \$7,126,241,581. Of the total net income of these families and individuals in 1919 nearly one-fourth, \$4,973,648,190, was derived from property. Three and a half billion dollars can easily be secured from a tax upon personal incomes. Of the deductions made before the net income subject to taxation was determined, \$2,453,774,825 was for dividends.

A billion and a half dollars can be secured from the tax on corporation profits, for, of course, the tax on corporation profits applies to all profits regardless of stock ownership. All that is needed to raise this amount from these two sources is determination on the part of the Federal Government to do so. The Government might appropriately publish the names of every person who invests over \$10,000 in tax-exempt securities, and Congress should pass a law requiring every person investing over \$10,000 in tax-exempt bonds to report to the Secretary of the Treasury and under oath give the amount and nature of such investment. The Government has published a list of draft evaders and it can appropriately publish the names of unpatriotic tax dodgers of great wealth.

The concentration of wealth in this country is a standing menace to our institutions, an incitement to offensive warfare through entangling international investments and a potent and inevitable breeder of discontent at home. About one forty-sixth of 1 per cent of the population owns over 27 per cent of the national wealth. Between four and five billion dollars at least passes by inheritance annually. A very large sum passes annually by transfer of the living, probably nearly an equal amount. The principle of the Federal estate tax is established, but during the year 1920 the total receipts therefrom were only \$103,628,104, while the proceeds of State estate or inheritance taxes were in 1919 only about \$43,000,000. Most of the great fortunes in our country are based upon some privilege granted by Congress or are derived from exploitation of a large part of the American people. Congress should levy a rapidly progressive tax upon transfer of net estates of decedents and at least an equally heavy and progressive tax upon transfer of property *inter vivos*, with a reasonable exemption in both cases. Such a tax would yield at least \$2,000,000,000, or within \$250,000,000 of the amount of short-time Federal certificates of indebtedness coming due this fiscal year.

Two hundred and fifty to three hundred million dollars should be secured during the present fiscal year by taxing the value of land and other natural resources speculatively held under the principles of the Keller bill to tax large landed estates. Perhaps two hundred and fifty millions will be secured from customs duties, contingent upon the application of the principle of valuation on the American price. Seven and a half billion dollars can be secured from these sources if Congress so wills during the present fiscal year. All existing consumption taxes should be repealed and tariffs levied only on luxuries and to safeguard prostrate industries such as agriculture. This revenue program would take billions of dollars off the Nation's workers and place the tax burden where it rightfully belongs; upon concentrated wealth and upon privilege. It would greatly expand the domestic market for farm products and for manufactured products and relieve agriculture and unemployment.

BENJAMIN C. MARSH,
Executive Secretary.

AMERICANS RESIDING IN FOREIGN COUNTRIES.

EDWARD A. LE ROY, JR., REPRESENTING NATIONAL FOREIGN TRADE COUNCIL.

The CHAIRMAN. Mr. Le Roy, you represent the National Foreign Trade Council, is that right?

Mr. LE ROY. Yes. The National Foreign Trade Council is an organization of the executive officers of the principal firms in this

country engaged in foreign trade, both export and import. I am also speaking specially for the Eighth National Foreign Trade Convention, which was held in Cleveland last May, and which passed the following resolution:

We submit that the policy of taxing Americans abroad upon income derived from within the country of residence is fundamentally uneconomic, is really restrictive rather than productive of revenue, and is a handicap upon the promotion of American commerce, dangerous to the success of American enterprise abroad, and bound to react disadvantageously upon industry at home. The United States is the only great commercial nation which pursues this policy, and we urge Congress to abandon it in the forthcoming revision of the revenue laws.

That, gentlemen, is why I am here.

The facts in the case are very simple. I have a brief which I will submit to you later, which is more in detail. The United States is the only country in the world which levies an income tax upon its citizens resident in foreign countries, with regard to the incomes which they derive from those foreign countries. In other words, an American goes out to Argentina and goes into some little business there. Perhaps he is selling American goods on a commission basis. You tax him just the same as you tax me and everybody else.

The CHAIRMAN. No; just a little differently.

Mr. LE ROY. Yes; just a little differently. Allow me to point that out to those members who are not familiar with it. You allow him to credit against his United States tax on his income the war-profits or excess-profits tax which he pays to the foreign country. So far as those countries are concerned which tax our people resident abroad as heavily as we do, there is no complaint, but we have made an elaborate investigation of the income tax laws of the world, we have covered 72 of the principal countries, and not half of them have income taxes, in the first place, and of the half which do have those taxes, about half of them, roughly, levy at a lower rate than ourselves.

Take China for instance. Our trader out there pays the United States income tax. His British competitor does not pay an income tax to the British Government. The American trader, therefore, is at a disadvantage to the whole extent of his American tax. He can by that amount not compete with his foreign competitor.

Mr. CRISP. Are you familiar with the bill known as the Dyer bill, which the House passed?

Mr. LE ROY. That goes a little further than we are asking.

Mr. CRISP. The House has passed legislation that covers your complaint, so far as China is concerned.

Mr. LE ROY. So far as China is concerned, yes, sir; but not so far as concerns the rest of the world, and there is no income tax in Argentina, there is no income tax in a great many of the less developed areas.

Mr. OLDFIELD. You said a moment ago that in half of those countries that have income taxes they are less than in our country?

Mr. LE ROY. Yes, sir.

Mr. OLDFIELD. Are there any countries that have higher income taxes than this country?

Mr. LE ROY. I think there are, sir.

Mr. OLDFIELD. What are they?

Mr. LE ROY. That is a little hard for me to answer on account of the exchange rate, which complicates it, but, in my opinion, from what I can read of the laws in Australia and in Germany and England, I just gained the idea that they are higher.

Mr. LONGWORTH. They are higher on the smaller incomes, but not so high on the very big incomes.

Mr. LE ROY. Some of them go up very high.

Mr. GARNER. The normal taxes of those countries are much higher than they are in this country?

Mr. LE ROY. Yes.

Mr. GARNER. I wish you would put in the record the normal rate of taxation and the surtaxes in countries which levy a greater income tax than the United States.

Mr. LE ROY. I will try to do that, sir. It is pretty hard; it is very technical.

To continue with this argument, I think you will admit that if a man is taxed and his competitor is not taxed, he can not possibly compete with him. Especially is that true at present, when business depression everywhere reduces the margin of profit and makes you work much more closely. I do not think there is a member on this committee who would start in business in this country if he were to be taxed on that business and his competitor were not. Supposing you are already in business. What would you do?

The CHAIRMAN. Well, let me draw a picture for you, will you?

Mr. LE ROY. Yes, sir.

The CHAIRMAN. Here is what is a company, with offices in New York, and all their business is in a foreign country. They bring the major portion of their product, which is calcium carbide, into the United States and sell it. If we passed a law such as you suggest, the profit would all be in Canada and there would be none here, and they would not pay a tax. Now, then, they pay the tax as an American firm doing business abroad. How would you arrange that?

Mr. LE ROY. I am not asking that you exempt American firms resident in this country from taxation on any income. I am talking only about individual American citizens, the personal individual.

The CHAIRMAN. Well, you would discriminate, then, against the business man in favor of the individual? We propose to tax them alike over here. We could not do that, in my opinion, without discrimination.

Mr. LE ROY. Well, your corporation would be domiciled in this country, and that would make it an American company.

The CHAIRMAN. We have just been arguing this morning that there should be no difference in the taxes upon a corporation, an individual, or a copartnership; they should all be treated alike.

Mr. LE ROY. So far as they are all resident in this country, by all means.

The CHAIRMAN. If we adopted your suggestion, if they were here and doing business abroad, we would have to treat them differently.

Mr. LE ROY. I do not think you ought to treat them differently if they are in this country.

The CHAIRMAN. But you think so, if they were abroad doing business?

Mr. LE ROY. I think if there is an individual living practically abroad and getting all of his money in a foreign country, he ought to

be exempt. That is the policy on which the taxation laws of every other country are based. I do not know how it ever crept into our laws, because it is an anachronism; there is nothing else like it.

Mr. LONGWORTH. Would you exempt the American oil producers of Mexico?

Mr. LE ROY. What do you mean, the individual American citizen?

Mr. LONGWORTH. Yes.

Mr. LE ROY. If an American citizen is in Mexico doing business, and is not incorporated in the United States, I would exempt him; yes—I do not care what he is doing.

Mr. LONGWORTH. Have you any idea how much that would reduce the present revenues?

Mr. LE ROY. I have, sir. You receive from nonresident aliens and American citizens resident in foreign countries—this is kept together, you can not separate them—you receive altogether approximately \$8,000,000.

Mr. LONGWORTH. Is that all?

Mr. LE ROY. That is all.

Mr. LONGWORTH. From both combined?

Mr. LE ROY. From both, the nonresident alien whom you tax in this country and the American citizens whom you tax abroad.

Mr. GREEN. That is from the individual income tax?

Mr. LE ROY. From the individual income tax. Of course, there are no companies resident abroad.

The CHAIRMAN. That does not cover corporations?

Mr. LE ROY. No, because a corporation, if it is an American corporation, is not resident abroad; it is domiciled in this country.

The CHAIRMAN. Is that all we receive from all these people you are talking about—\$8,000,000?

Mr. LE ROY. Yes; that is all from the people I am talking about. I should imagine not over half of it can be applied to American citizens, because you have received a lot from aliens recently. We are not asking you to give up \$4,000,000 of revenue. Our foreign trade is at present held to be necessary to domestic prosperity. You certainly must have received enough requests for the support of foreign trade of every kind to know that it is a very vital part of our domestic prosperity. We believe, and all of the great trading nations of the world have believed, that to have a foreign trade you must have your own citizens resident in a foreign country; you must have men over there who will sell your goods, who will introduce your wares, who will supply the cargoes for your ships, and who will generally create a demand for American products. Now, you have got to exhibit your products where the people are actually living. China you know about. Firms have been going out of China very fast. The same thing is true of other countries.

Mr. FREAR. That is not due to this taxing question that you speak of.

Mr. LE ROY. It is very largely due in China to the tax.

Mr. FREAR. Is it not due almost entirely to the trouble with our foreign trade?

Mr. LE ROY. A great deal is due to that, but the particular reason why American firms are going is because they have been taxed.

Mr. FREAR. What is the explanation of so many houses, like Grace & Co., in New York, closing out?

Mr. LE ROY. They have not closed out. All the fly-by-nights have gone.

Mr. FREAR. What is the explanation of why they have gone out of business?

Mr. LE ROY. Business depression has had a whole lot to do with it.

Mr. FREAR. It has had the same effect over here as it did abroad, has it not?

Mr. LE ROY. It has its effect. That is one thing, and the thing I am talking about is another.

Mr. LONGWORTH. Did I understand you to say there was no country but this country which taxed its citizens resident in a foreign country?

Mr. LE ROY. On income derived from a foreign country. There is no other country, unless you consider Porto Rico as another country. Porto Rico follows us exactly.

Mr. GREEN. It would seem to be inevitable, if they were compelled to pay their tax, and then also compelled to pay the additional taxes levied by this country, that they could not compete with either the native citizen or the foreigner who was doing business there and was exempt from taxation.

Mr. LE ROY. They do not pay both, sir; they pay either one or the other, as Mr. Fordney pointed out. You can credit against the American tax the foreign tax that you may pay, but if you do not pay the foreign tax, the American has paid his American tax, and his French competitor has not paid a cent. This is one of the important elements of foreign trade and the American trader abroad.

The CHAIRMAN. Here is the situation, my friend. A citizen living here and doing business here pays the municipal tax, the township, county, State and national tax, but if he has his capital invested abroad, and is an American citizen, you say he does not pay any tax there. Then he escapes taxes altogether, although he lives here and enjoys all the benefits of the country.

Mr. LE ROY. If he is resident in this country I want him to pay the tax. Every man in this country ought to pay the tax.

The CHAIRMAN. Well, he is doing business abroad, and he enjoys everything that is to be gotten when he is here. He is not abroad to stay forever as a citizen of a foreign country; he is just over there because he is benefited by going there and making his investment, that is all.

Mr. LE ROY. If he receives money from a foreign source in this country; in other words, if he is living in this country and gets it from a foreign investment, he ought to pay taxes.

The CHAIRMAN. If he is over there a while and is making money he escapes the tax, and when he has made a little money and comes back here again, would you relieve him from the payment of taxes under your plan?

Mr. LE ROY. Absolutely, or otherwise he will not make any money.

The CHAIRMAN. He ought to be compelled to maintain this Government as long as he is a citizen of this country, ought he not?

Mr. LE ROY. I do not think so, not as a matter of policy, not as a matter of far-sighted policy. No other country has done it.

Mr. CRISP. Is it not a fact that he enjoys the protection of this country while he is doing business abroad?

Mr. LE ROY. You are a little optimistic as to the protection he is afforded. On the other hand, he can not get anything for what he pays. He can not send his children to the public schools, etc.

Mr. CRISP. Well, that is his fault for being over there. If he comes back here he gets all of those privileges the minute he lands in the country, and he has not paid anything for them.

Mr. LE ROY. The party that sent him abroad to assist in the sale of American goods pays the tax. It seems to me there can not be any proposal except to exempt him.

The CHAIRMAN. If he goes abroad as the agent of a firm in New York, should he be exempt?

Mr. LE ROY. You mean if he goes abroad as the manager, let us say, and lives for 10 years in a foreign country?

The CHAIRMAN. Yes; as the agent of an exporter from this country.

Mr. LE ROY. Then he would be a citizen of this country living abroad, earning his money in a foreign country.

The CHAIRMAN. They could go abroad as agents instead of the firm doing business over there.

Mr. LE ROY. It would not make any difference. You would tax that company just the same that sent him. You do that.

The CHAIRMAN. We do that now?

Mr. LE ROY. Sure, and I want you to keep on doing it, but so far as this poor man is concerned—

The CHAIRMAN. He is paid by a firm in New York for going over there to represent them.

Mr. OLDFIELD. He says he wants to continue to tax that firm.

The CHAIRMAN. But he is speaking of the agent abroad that gets his money from a New York firm and lays it up while he is over there, and comes back and spends it, and pays no tax. He is appealing in the interest of that man.

Mr. LE ROY. That is one of the kinds of men. You can not very well differentiate between the different kinds.

The CHAIRMAN. That may be an extraordinary case, but that is a case exactly.

Mr. LE ROY. That certainly is.

I have virtually covered the facts, and I will put this brief in the record.

BRIEF OF EDWARD A. LE ROY, JR.—EXEMPTION OF AMERICAN TRADERS RESIDENT ABROAD.

This brief is submitted by the National Foreign Trade Council, 1 Hanover Square, New York, a nonpartisan, nonpolitical organization composed of manufacturers, merchants, railroad and steamship men, bankers, and others, representing all phases of American foreign trade and all sections of the United States.

OUTLINE OF ARGUMENT.

I. The revenues of the United States depend for the most part on the prosperity of its domestic agriculture and industry.

II. Foreign outlets are now essential to the maintenance of the prosperity of the industry and agriculture of the United States.

III. These foreign outlets can best be obtained and maintained through the presence of American traders resident in foreign countries.

IV. American traders resident abroad can not compete with foreign rivals if handicapped by burdens not borne by their competitors.

V. The citizens of all countries except the United States, when resident abroad, are exempt from the payment of taxes to their home governments on income derived within the foreign country.

VI. American citizens resident in foreign countries pay United States income and excess profits taxes on all income received from all sources.

VII. The revenue obtained by taxing American traders resident abroad on income derived from foreign sources is relatively insignificant.

VIII. Greater revenues than those obtained from taxing American traders abroad can be secured from the taxes levied on domestic industry and agriculture, made prosperous through the development and maintenance of foreign trade.

IX. Therefore American traders resident abroad should be exempt from payment of United States taxes on income derived from sources within the foreign country.

ARGUMENT.

I. *The revenues of the United States depend for the most part on the prosperity of its domestic agriculture and industry.*—In 1920 the amount obtained from internal revenue constituted more than 94 per cent of the revenues of the country, almost the entire \$5,399,149,245 being obtained from internal revenue, while only \$323,536,559 was obtained from customs revenue.

II. *Foreign outlets are now essential to the maintenance of the prosperity of the industry and agriculture of the United States.*—Every man, woman, and child in the United States is vitally concerned in the maintenance of our foreign trade. Seventeen per cent of our total production is devoted to foreign trade. One-fifth of our industrial and agricultural population depend for their livelihood on foreign trade. Every industry exports some part of its finished products. Most industries import essential raw materials. The price of our agricultural products is determined by the laws of supply and demand in the markets of the world. Certain imports are essential to the fertility and operation of our farms. All parts of the United States, however distant from the seacoast, contribute directly or indirectly to our foreign trade. Our foreign trade is now faced by renewed foreign competition, with exchange everywhere unfavorable to our exports. Foreign Governments are doing everything in their power to increase and support their foreign commerce. It is the part of prudence and of economy for the United States to do the same.

III. *These foreign outlets can best be obtained and maintained through the presence of American traders resident in foreign countries.*—In the development of the foreign trade which is now so essential to the industry and agriculture of the United States, it should be a cardinal principle of our commercial policy to encourage in every way those American citizens who are living and doing business in foreign countries. It is impossible permanently to develop a worth-while foreign trade of any size without having American traders resident in the various trade centers of the world where business is done. Americans resident in foreign countries themselves consume considerable quantities of American products. If they are associated with the management of foreign enterprises it is probable that those enterprises will also consume large quantities of American goods. Americans resident abroad perform a valuable pioneer work by the introduction of American goods and American methods in foreign markets. Americans resident in foreign countries and acting as agents for the sale of American goods are essential to secure proper care and intelligent development of the market for such goods in the face of foreign competition. Americans resident abroad have it in their power to aid materially in the development of an American merchant marine by giving preference to the use of American ships in the transportation of the goods in which they deal.

IV. *American traders resident abroad can not compete with foreign rivals if handicapped by burdens not borne by their competitors.*—This statement is so axiomatic as to require no proof. It might be pointed out, however, that this statement is peculiarly true at the present time owing to the world-wide business depression and the consequent necessity for operating at the smallest possible margin of profit.

V. *The citizens of all countries, except the United States, when resident abroad are exempt from the payment of taxes to their home governments on income derived within the foreign country.*—The National Foreign Trade Council undertook in 1920 to investigate the taxation levied by the United States and by foreign countries on American traders abroad, and to compare this taxation with that levied by foreign countries on their nationals when resident abroad. In this work the council has received the hearty and effective cooperation of the Consular Service of the Department of State, through whose efforts much valuable and authentic information was obtained. The Bureau of Foreign and Domestic Commerce of the Department of Commerce has also been of material assistance. In no country did the council discover a tax law which levied an income tax on nationals of that country resident abroad with respect to income derived from foreign sources. For summary of foreign tax laws see appendix to this report.

VI. *American citizens resident in foreign countries pay United States income and excess profits taxes on all income received from all sources.*—So far as our own laws are concerned, a fair and even chance in competition with foreigners is the least that an American trader in foreign countries has a right to expect. Yet it is a fact that citizens of the United States living and doing business in a foreign country are placed at a tremendous competitive disadvantage because of the taxes they are forced to pay to the United States on income derived from sources within the foreign country. In this connection, certain fundamental conditions must be understood:

1. No country, except the United States, taxes its nationals living abroad on income derived from foreign sources.

2. The United States levies income, war profits, and excess profits taxes on its citizens wherever located, and on income derived from all sources.

3. The United States allows its citizens to credit, against these United States taxes, the sum of all income, war profits, and excess profits taxes paid to foreign countries upon income derived from sources therein; and allows them to deduct from gross income, other taxes paid to foreign countries.

In order to grasp the practical application of these facts, let us examine several concrete cases which will illustrate the workings of these tax laws, and will indicate the burden which American traders abroad are forced to carry in competing with citizens of other countries.

CASE I. IN A COUNTRY WHERE NO SUBSTANTIAL TAXES ARE LEVIED.

Under such conditions, the natives and resident foreigners (including citizens of the United States) are not required to pay any local taxes. Neither is the British, French, Japanese, Spanish, nor other competitor of the American trader required to pay taxes to his home government. But the American trader is required to pay to the United States an income, war profits, and excess profits tax on whatever he earns from the business which he is conducting in the foreign country.

The enormity of this tax burden is very apparent, and is indicated in the following tables, allowing in each case the married men's exemption:

Income.	United States income tax.	Difference against Americans.	Income.	United States income tax.	Difference against Americans.
\$10,000.....	\$500	\$500	\$300,000.....	161, 190	161, 190
\$25,000.....	2, 880	2, 880	\$400,000.....	232, 190	232, 190
\$50,000.....	9, 190	9, 190	\$500,000.....	303, 190	303, 190
\$100,000.....	31, 190	31, 190	\$600,000.....	375, 190	375, 190
\$200,000.....	93, 190	93, 190			

From this it becomes evident that to the extent of his advantage in income tax, the non-American can undersell and overbid the American, or can use the amount in advertising or in otherwise pushing his wares.

Such conditions are encountered in countries of the world which are undeveloped and which have comparatively primitive fiscal systems. In Honduras, for example, the British grower of bananas who earned a net profit of \$100,000 would pay no appreciable tax to the Government of Honduras; neither would he pay any tax on his earnings to the British Government. The American grower of bananas in Honduras, on the other hand, would have to pay to the United States an income tax amounting to \$31,190. In other words, the earning power of the American citizen in this case would be \$31,190 less than that of his British competitor; and he would be prevented by that sum from competing with the British grower in advertising, sales promotion, the accumulation of reserves, etc.

CASE II. IN A COUNTRY WHERE TAXES OTHER THAN INCOME, WAR-PROFITS, OR EXCESS-PROFITS TAXES ARE LEVIED.

Under such conditions, the natives and resident foreigners (including citizens of the United States) are required to pay local taxes. The British, French, Japanese, Spanish, or other competitor of the American trader is, however, not required to pay any taxes to his home government. But the American trader is required to pay to the United States an income, war-profits, and excess-profits tax on whatever he earns from the business which he is conducting in the foreign country. It is true that the American trader is permitted to deduct the foreign taxes (other than income, war-profits, or excess-profits taxes) from his gross income when calculating the tax due the

United States Government, provided these taxes were not added to or made part of the expenses of the business or the cost of the articles of merchandise with respect to which they were paid; but this deduction tends only slightly to lessen the tax to be paid the United States Government, as may be seen from the following example:

Gross income.	Foreign tax (estimated).	Net income.	United States income tax and difference against Americans.	Gross income.	Foreign tax (estimated).	Net income.	United States income tax and difference against Americans.
\$10,000.....	\$200	\$9,800	\$568	\$300,000.....	\$5,400	\$294,600	\$157,518
\$25,000.....	450	24,550	2,794	\$400,000.....	7,200	392,800	227,078
\$50,000.....	900	49,100	8,911	\$500,000.....	9,000	491,000	296,800
\$100,000.....	1,800	98,200	30,182	\$600,000.....	10,800	589,200	367,414
\$200,000.....	3,600	196,400	90,886				

(The estimated foreign tax here given is used merely as an example of a small local tax such as those levied on exports or imports, on land, on capital, on the number of employees, on production, etc., and also those imposed on particular forms of business such as banking, insurance, mining, shipping, etc. As such taxes often bear no relation to income, it has been necessary to approximate the size of the tax corresponding to any particular income.)

As a matter of fact, this situation does not often arise, as such taxes are normally added to the expense of the business or to the cost of the merchandise, under which conditions the taxes are not deductible from the gross income. Since, however, the situation does occasionally arise, it is advisable to enumerate this case in order to indicate that the deduction of such taxes from gross income does but little to better the enormous disadvantage under which the American trader must work in competition with traders of other nationalities.

CASE III. IN A COUNTRY WHERE INCOME, WAR PROFITS, OR EXCESS-PROFITS TAXES ARE LEVIED, BUT AT A LOWER RATE THAN UNDER THE UNITED STATES REVENUE ACT OF 1918.

Under such conditions, the natives and resident foreigners (including citizens of the United States) are required to pay local income taxes. The British, French, Japanese, Spanish, or other competitor of the American trader is, however, not required to pay any such tax to his home Government. But the American trader is required to pay to the United States an income, war profits, and excess-profits tax on whatever he earns from the business which he is conducting in the foreign country. It is true that the American trader is permitted to credit his foreign income taxes against those due the United States Government; but as the foreign income taxes are levied at a lower rate than are the United States taxes, there is still a wide margin in favor of the non-American business man.

This tax burden is made evident by the following illustration of conditions in the Philippines:

Income.	Philippine income tax.	United States income tax.	Difference against Americans.	Income.	Philippine income tax.	United States income tax.	Difference against Americans.
\$10,000.....	\$235	\$590	\$355	\$300,000.....	\$31,735	\$161,190	\$129,455
\$25,000.....	910	2,880	1,970	\$400,000.....	46,735	232,190	185,455
\$50,000.....	2,535	9,190	6,655	\$500,000.....	60,735	303,190	242,455
\$100,000.....	6,985	31,190	24,205	\$600,000.....	77,735	375,190	297,455
\$200,000.....	18,235	93,190	74,955				

To apply these figures even more concretely, take the following example:

There is a French concern in Manila handling American automobiles, tractors, etc. In 1919 it is reported to have earned a net profit of \$600,000. Upon this it would pay to the Philippine government an income tax of \$77,735. It paid no taxes upon such income to the French Government. There is also in Manila an American house engaged in handling automobiles, tractors, etc., in competition with the French con-

cern. Upon a like volume of business the American house would be compelled under existing law to pay a United States income tax of \$375,190, the difference against the American house amounting to \$297,455.

The same situation and the same handicaps apply to American business when carried on in many parts of the world under these conditions.

CASE IV. IN A COUNTRY WHERE INCOME, WAR-PROFITS, OR EXCESS-PROFITS TAXES ARE LEVIED AT A RATE EQUAL OR HIGHER THAN UNDER THE UNITED STATES REVENUE ACT OF 1918.

Under such conditions the American trader living and doing business in a foreign country is neither better nor worse off than his non-American competitor, as he is enabled to credit against the tax due the United States the larger tax levied by the local government.

VII. *The revenue obtained by taxing American traders resident abroad on income derived from foreign sources is relatively insignificant.*—In 1918 3,678 nonresident aliens and citizens residing abroad reported a net income of \$56,473,942, on which they paid taxes amounting to \$8,665,567. The tax thus received constituted 0.77 per cent of the total income tax obtained from individuals.

The classification whereby nonresident aliens and citizens residing abroad are grouped together renders it impossible to determine exactly how much was obtained by citizens residing abroad and serves to emphasize the exceedingly small part of the total revenues of the United States which have been obtained from this source.

VIII. *Greater revenues than those obtained from taxing American traders abroad can be secured from the taxes levied on domestic industry and agriculture made prosperous through the development and maintenance of foreign trade.*—It is axiomatic that a tax so levied as to destroy the source of revenue is uneconomic. Americans resident in foreign countries can not be expected to compete with the traders of other nations if they are subject to a tax which is not borne by their foreign competitors. It is clear, therefore, that the present policy of taxing American traders abroad on their foreign income will presently result in the self-elimination of this source of revenue.

On the other hand, if the activities of American traders resident in foreign countries are made possible and stimulated by exemption from the unusual tax burden to which they are now subject, it is reasonable to suppose that their prosperity will be reflected throughout all the domestic industries of the United States, and that with such development in our foreign trade will come a period of expansion and prosperity in American business which will find definite reflection in the taxes obtained by the Government from domestic industry.

IX. *Therefore American traders resident abroad should be exempt from payment of United States taxes on income derived from sources within the foreign country.*—Many additional arguments, some sentimental and some theoretical, have been advanced to indicate the desirability of relieving American traders resident abroad from United States taxes on income derived from foreign sources. It is believed, however, by the National Foreign Trade Council that the simple statement of the facts, first, that American traders can not continue to reside and do business in foreign countries if subjected to a tax not borne by their competitors, and, second, that greater revenues can reasonably be expected from the prosperity incident to the stimulation of activity of American traders in foreign countries is sufficient to indicate the wisdom of granting the relief requested.

SUMMARY OF FOREIGN TAX LAWS.

The information here appended has been obtained partly from the Consular Service of the Department of State, partly from the reports of the Bureau of Foreign and Domestic Commerce, and partly from published compilations, current periodicals, and communications from American chambers of commerce in foreign countries:

Owing to the constant change in revenue laws occurring all over the world and to the length of time required to obtain such information, it is impossible to provide data that is absolutely accurate at the moment of presentation. Such data is, however, sufficiently authoritative to indicate clearly the general trend of tax laws in foreign countries, the type of taxation to which Americans doing business abroad are subject, and the competitive disadvantage suffered by American traders in foreign countries.

Algeria: There is a general tax of 5 per cent on all incomes derived within this country (N. B. S. A.,¹ 1920).

¹ Reference is here indicated to the 1920 publication of the National Bank of South Africa (Ltd.) entitled "Income Tax, Weights and Measures, Stamp Duties, Coinage—British, Colonial, and Foreign."

Argentina: There is no income tax (N. B. S. A., 1920).

Australia: The personal income tax varies from 2.5 per cent to 14 per cent. The income of companies which has not been distributed to members or shareholders is taxed 12.5 per cent (N. B. S. A., 1920).

An Australian citizen resident in a foreign country pays no taxes to Australia unless he derives income from Australia. An Australian company doing business in a foreign country is taxable only on such income as it derives directly or indirectly from sources within Australia. (Special Consular Report, Feb. 21, 1921.)

In addition to the Federal taxes, all the States in the Commonwealth levy income taxes on individuals and companies. (Trade Commissioner Report, Jan. 14, 1921.)

Austria: German Austria levies an income tax ranging from 3.2 per cent on Kr. 22,000 to 6.4 per cent on Kr. 1,000,000. In addition, a supplementary war tax ranging from 40 per cent to 400 per cent of the ordinary income tax is levied. (Commerce Reports, No. 119, May 20, 1920 N. B. S. A., 1920.)

Bahama Islands: There is no income tax. (N. B. S. A., 1920.)

Belgian Congo: A tax on profits of local companies is levied at the rate of 2 per cent of their total net profits, wherever earned. On companies registered outside Belgian Congo the rate is 1 per cent of total net profits earned in the Belgian Congo. No income tax is levied on individuals. (N. B. S. A., 1920.)

Belgium: In addition to the land tax and personal tax, a professional tax is levied on earnings of profits of individuals and companies, and a supertax is levied on earnings of individuals. The tax on earnings ranges from 2 per cent to 10 per cent; the supertax varies from 1 per cent to 10 per cent. (Special Consular Report, Jan. 13, 1921; N. B. S. A., 1920; Bulletin American Belgian Chamber, Jan. 15, 1921.)

Persons and companies resident in foreign countries do not pay taxes on incomes derived outside of Belgium. (Gaston de Leval, Dec. 1, 1920.)

Bolivia: No income tax is levied on personal incomes or profits. A tax of 2 per cent is levied on profits of all nonmining companies, and on dividends from banks or joint-stock companies. Merchants and companies trading in mining products pay 8 per cent on their net profits. Mining concerns pay taxes ranging from 8 per cent to 30 per cent, depending on relation of income to capital employed (Special Consular Report, Jan. 26, 1921; N. B. S. A., 1920).

Brazil: No income tax is levied on individuals (Special Consular Report, Apr. 5, 1921; N. B. S. A., 1920).

Companies pay an income tax ranging from 3 per cent to 7 per cent (Special Consular Report, Apr. 5, 1921).

British Honduras: There is no income tax (N. B. S. A., 1920).

British North Borneo: There is no income tax (N. B. S. A., 1920).

British West Africa: There is no income tax in Gambia, Gold Coast, Nigeria, or Sierra Leone (N. B. S. A., 1920).

Bulgaria: Individuals pay an income tax of 4 per cent. Individuals and private companies pay a war profits tax ranging from 5 per cent to 60 per cent, while limited liability companies pay two-thirds of this rate and also a percentage proportional to the relation between war profits and capital (N. B. S. A., 1920).

Canada: The income tax on individuals and corporations corresponds exactly to the United States income tax rates (7 and 8 Geo. V, C. 28; as amended in 1918; N. B. S. A., 1920). The act provides, however, that "in the case of the income of persons residing * * * outside of Canada, * * * the income shall be the net profit or gain arising * * * in Canada" (sec. 3, (3)); and that "The following incomes shall not be liable to taxation hereunder: The income of incorporated companies whose business and assets are carried on and situated entirely outside of Canada" (sec. 5, (k)).

Ceylon: There is no income tax (N. B. S. A., 1920).

Channel Islands: There is no income tax (N. B. S. A., 1920).

Chile: No income tax was levied up to 1921. The income tax recently proposed will tax both companies and individuals, and will be imposed, apparently, exclusively upon income derived from sources in Chile (Special Consular Report, Feb. 2, 1921).

China: There is no income tax (N. B. S. A., 1920).

Colombia: An income tax varying from 1 per cent to 3 per cent is levied on the income of residents and on the income of nonresidents derived from Colombia. (Special Consular Report, Mar. 5, 1921; N. B. S. A., 1920).

Costa Rica: There is no income tax. Banks and all others making profits by lending money pay a tax of 6 per cent on gross profits (N. B. S. A., 1920).

Cuba: There is no general income tax. Companies with share capital, cooperative associations, tobacco and sugar companies pay 8 per cent on their profits; banks pay from 6 per cent to 8 per cent; mining concerns and railways pay 6 per cent; and insurance companies pay 4.5 per cent.

Denmark: An income tax is levied on individuals ranging from 5 per cent to 25 per cent. A small tax also levied on capital. The Danish citizen living in a foreign country is liable to taxation only for income arising in Denmark and is not liable for income derived from sources within the foreign country. Companies pay a tax of from 5 per cent to 35 per cent, depending on the relation of income to capital. (Special consular report, Jan. 29, 1921.)

Dominican Republic: There is no income tax (N. B. S. A., 1920).

Ecuador: There is no income tax. Corporations pay a tax of three per thousand on capital employed. (Special consular report, Sept. 13, 1920.)

Egypt: There is no income tax (N. B. S. A., 1920).

Fiji Islands: An income tax ranging from 5 per cent to 35 per cent is levied on individuals. Citizens resident abroad pay no tax on income derived from foreign sources. Corporations and companies pay an income tax of 5 per cent, but only on income derived in or from the colony. A tax of 20 per cent is levied on profits of companies and corporations in excess of 15 per cent of the capital employed. (Special consular report, May 24, 1921.)

France: An income tax is levied, ranging up to 12.5 per cent. This tax is levied only on persons domiciled in France (sec. 6, law of July 15, 1914, as amended Dec. 30, 1916; Feb. 23, 1917; and July 31, 1917). A war-profits tax of from 50 per cent to 80 per cent is also in force (N. B. S. A., 1920).

French Congo: There is no income tax (N. B. S. A., 1920).

Germany: An income tax ranging from 4 per cent to 60 per cent is levied on all German citizens, except those who reside abroad for more than two years and on all resident foreigners. A capital profits tax of 10 per cent is also levied on dividends and interest received. Corporations pay an income tax of 10 per cent plus surtaxes of from 2 per cent to 10 per cent. (Dr. Paul Marcuse, Transatlantic Trade, Dec., 1920). Numerous State taxes are also levied in various parts of the Republic (N. B. S. A., 1920).

Great Britain: An income tax of from 15 per cent to 30 per cent is levied on individuals. A supertax varying from 7.5 per cent to 30 per cent is levied. There is also an excess-profits duty of 60 per cent on income above a prewar standard (or 13 per cent of capital employed).

An income tax of 30 per cent is levied on companies. A corporation profits tax of 5 per cent is levied on profits arising in the United Kingdom. There is also an excess-profits duty of 60 per cent on all profits above a prewar standard (or 11 per cent of capital employed).

The income tax is not levied on British citizens resident in foreign countries unless they carry on business or derive income from within the United Kingdom. (Special Consular Report, Feb. 8, 1921; N. B. S. A., 1920; American Economic Review, supplement, Dec., 1920.)

Greece: Under the "analysis," an income tax of 10 per cent on real estate, stocks and bonds, 8 per cent on commerce and agriculture, 6 per cent on professions, salary and commissions, and 1 per cent on wages, is levied on all persons resident in Greece. Under the "synthesis," additional taxes are imposed on certain classes of persons. (Special Consular Report, March 2, 1921.)

Guatemala: There is no general income tax. A tax of 5 per cent is levied on dividends declared by banks, companies, etc.

Honduras: There is no income tax, and no material taxes of other kinds. (Special Consular Report, Aug. 11, 1920.)

India: An income tax is levied on individuals at rates of from 2.5 per cent to 6.2 per cent; and on limited companies and partnerships at 6.2 per cent. A supertax of from 6 per cent to 18.5 per cent is also levied. (N. B. S. A., 1920.)

Italy: An income tax of from 7.5 per cent to 20 per cent is levied on income which is produced or exists in Italy. Incomes which are derived from sources and exist outside of Italy are not subject to taxation. A supertax of from 20 per cent to 60 per cent is levied on war profits. (Special Consular Report, Jan. 26, 1921; Bulletin, American Chamber of Commerce, Milan, November, 1920.)

Jamaica: An income tax of from 1 per cent to 10 per cent is levied on income derived from or received in Jamaica. (N. B. S. A., 1920.)

Japan: An income tax is levied on all persons and companies resident in Japan. No income tax is paid by citizens resident abroad or on companies doing business abroad on income derived from foreign sources. The rate on individual incomes is from 0.5 per cent to 36 per cent. An excess-profits tax of from 4 per cent to 20 per cent is levied on corporations. A business tax is levied on all commerce and industry. (Special Consular Report, Jan. 31, 1921.)

Kenia Colony: There is no income tax. (N. B. S. A., 1920.) An income tax of from 1 per cent to 25 per cent is proposed.

Liberia: There is no income tax. (N. B. S. A., 1920.)

- Madagascar:** There is no income tax. (N. B. S. A., 1920.)
- Malta:** There is no income tax. (N. B. S. A., 1920.)
- Mexico:** There is no income tax. (N. B. S. A., 1920.) Special business taxes are levied on different industries at different rates. The Mexican citizen resident in a foreign country and the company doing business abroad pays no taxes on income derived from foreign sources. (Special report, American Chamber of Commerce, Mexico City, Apr. 26, 1921.)
- Morocco:** There is no income tax. (N. B. S. A., 1920.)
- Netherlands:** An income tax of from one-eighth of 1 per cent to about 15 per cent is levied on income of individuals. This tax is not levied on the income of Dutch citizens resident abroad derived from foreign sources. A special defense tax is also levied. A tax of 5 per cent plus municipal charges is levied on the income of Dutch companies derived from all sources. (Special Consular Report, Jan. 24, 1921.)
- Netherlands East Indies:** An income tax varying from 1.5 per cent to less than 5 per cent is levied. (N. B. S. A., 1920.)
- New Zealand:** An income tax of from 2.5 per cent to 6 per cent is levied on individuals. For companies the rate varies from 5 per cent to 15 per cent. A special war tax of from 4 per cent to 22 per cent is also levied. (Special Consular Report, Mar. 9, 1921.) No income which is neither derived from New Zealand nor derived by a person then resident in New Zealand shall be assessable for income tax. (Land and income tax act, 1916, sec. 88-3.)
- Norway:** An income tax of from 2 to 50 per cent is levied on individuals, and of from 2 to 30 per cent on companies. (Special Consular Report, Apr. 29, 1921.) An excess-profits tax of 5 to 35 per cent is also levied. (N. B. S. A., 1920.)
- Nyasaland:** There is no income tax. (N. B. S. A., 1920.)
- Panama:** There is no income tax. (N. B. S. A., 1920.)
- Paraguay:** There is no income tax. (N. B. S. A., 1920.)
- Persia:** There is no income tax. (N. B. S. A., 1920.)
- Peru:** There is an income tax of 4 per cent on unearned personal income. (N. B. S. A., 1920.) On companies other than mining concerns a tax of 5 per cent is levied on profits. (Special Consular Report, July 21, 1920.)
- Philippines:** An income tax of from 3 to 23 per cent is levied. (American Chamber of Commerce, Manila, Mar. 7, 1921.)
- Porto Rico:** An income tax of from 3 to 18 per cent is levied on individuals. The tax on corporations is 3 per cent plus an excess-profits tax of from 5 to 30 per cent of the income above 10 per cent of the capital invested. (Act of June 26, 1919; as amended May 13, 1920.)
- Portuguese East Africa:** There is no income tax. (N. B. S. A., 1920.)
- Rhodesia:** An income tax of 5 per cent is levied. (N. B. S. A., 1920.)
- Rumania:** There is no income tax. (N. B. S. A., 1920.)
- St. Helena:** There is no income tax. (N. B. S. A., 1920.)
- Salvador:** Income received in Salvador is taxed from 2 to 5 per cent. (Special Consular Report, Mar. 31, 1921; N. B. S. A., 1920.)
- Serbia:** There is no income tax. (N. B. S. A., 1920.)
- Siam:** There is no income tax. (N. B. S. A., 1920.)
- Spain:** Spanish citizens resident abroad are taxed only on profits paid in Spanish territory. (Law of Oct. 19, 1920, art. 2.) The income tax on earned income ranges from 3 to 20 per cent, depending on classification. Profits emanating from capital and from cooperation of work and capital are taxed separately, according to classification. (Special Consular Report, Mar. 28, 1921.)
- Straits Settlements:** A tax of from 1 to 6 per cent is levied on income derived within the colony. (N. B. S. A., 1920.)
- Sweden:** The personal income tax ranges up to 12 per cent, and is levied only on income derived from sources in Sweden or received in Sweden. The tax on companies depends on the relation of income to capital. (Special Consular Report, Jan. 31, 1921.)
- Switzerland:** Each canton has separate tax systems. There is also an extraordinary war tax levied by the Federal Government. In no case has a Swiss tax been found to fall on Swiss citizens resident in foreign countries, except as to income derived from Switzerland. (Special Consular Reports, 1921.)
- Tanganyika Territory:** There is no income tax. (N. B. S. A., 1920.)
- Tunis:** An income tax of 3.5 per cent is levied on all income received by residents. (N. B. S. A., 1920.)
- Turkey:** There is a "temettu" tax of about 5 per cent on salaries, and of varying amounts on other incomes. (Commerce Reports, May 22, 1920.)
- Union of South Africa:** The income tax is levied on all residents and does not apply to income derived elsewhere. The rate on personal income ranges from 5 per cent

to 10 per cent. Super tax is levied on individual incomes at rates ranging up to 15 per cent. Companies pay an income tax of 5 per cent (7.5 per cent for diamond mining and 10 per cent for gold mining). (Special Consular Report, May 17, 1921.)

Uruguay: There is no income tax. (Special Consular Report, Aug. 5, 1920.)

Venezuela: There is no income tax. (Special Consular Report, Aug. 31, 1920.)

Zanzibar: There is no income tax. (N. B. S. A., 1920.)

AMERICANS RESIDING IN PHILIPPINE ISLANDS.

HON. JAIME C. DE VEYRA, RESIDENT COMMISSIONER FROM THE PHILIPPINE ISLANDS.

Mr. DE VEYRA. Gentlemen of the committee, on July 23, 1921, I addressed a letter to you on behalf of the Americans residing in the Philippine Islands to relieve them from the payment of tax on their income from Philippine business. I would like to ask the committee to allow me to include said letter as a part of my remarks in support of the contention of the Americans in the islands.

The revenue act of 1918 imposes a tax on income of every citizen of the United States, no matter where he resides or does business. This places the Americans residing and doing business in the Philippine Islands in practically the same position as citizens of the United States residing in foreign countries, although said act is not in force in said islands.

An American residing in a country that does not tax incomes, or that imposes lower income taxes than the United States, is handicapped in his business competition with others to the extent of the difference between the local tax, if any, and the United States tax.

The Philippine income tax is lower in rate and has more generous exemptions than those of the United States revenue act of 1918. American merchants in Manila compete for business with Filipinos, British, Germans, Japanese, Chinese, and others. All pay the Philippine tax on their incomes from Philippine business; the Filipinos, British, and others pay no other income tax on such incomes. Probably this is true of Germans, Japanese, and others. The Americans pay to the United States a further tax on such incomes equal to the difference between the local and United States rates. On similar incomes, and allowing the exemption of a married man in each case, the income tax disadvantage of the American in competition with Filipinos and others is therefore very great. For instance, on an income of \$10,000 the Philippine tax is \$235 and the United States tax is \$590, the difference against the American is \$385.

I realize the difficulty of exempting Americans in the Philippines from paying the taxes required under the revenue act of 1918 while making those residing outside of the United States pay the taxes. I appreciate the fact that each citizen within or without the country is bound to support the burden of his country, but it is imperative to remedy the anomalous situation which this law creates in the Philippines under special conditions, viz, that an American living in a territory under the control of his Government is placed in a worse position than the foreigner, and instead of obtaining protection from his Government in order to be able to compete with others he finds himself burdened with taxes which his competitors do not pay, making his operations, therefore, disadvantageous to himself in his own territory or market.

The Philippine Legislature in order to relieve the Americans from such a heavy burden passed a concurrent resolution instructing the Resident Commissioners to petition the Congress of the United States to amend the United States revenue law of 1918 in the sense that American citizens who are bone fide residents of the Philippine Islands shall not be subject to any income tax greater than that required of other residents of said islands.

Gentlemen of the committee, in accordance with the explicit instructions of the Philippine Legislature and on behalf of the American residents of the islands I most respectfully urge that such steps as you may consider necessary be taken to relieve the Americans residing in the Philippines from the burden which the revenue law of 1918 is imposing on them.

Mr. FREAR. There is one question that I would like to ask: Is an American citizen living in the Philippines at any greater disadvantage than an American citizen living in any other country; that is, such as Argentina, as was discussed here the other day, or are they in the same position?

Mr. DE VEYRA. I do not know, because they may not pay an income tax in other countries, but they do have to pay an income tax in the Philippine Islands.

Mr. FREAR. They pay an income tax in the Philippines and they are complaining—

Mr. DE VEYRA. And, they are complaining of this difference between the income tax obligations to the Philippines and the rate in the United States. I would like to incorporate with my remarks the statements prepared by the lawyer representing the Americans in the Philippines.

Mr. HAWLEY. Do I understand your contention to be that the American business men doing business in the Philippine Islands should be relieved at this time of this tax in order to place them upon exactly the same footing as merchants of other countries doing business in the Philippines?

Mr. DE VEYRA. Exactly. That is my position. I would like to incorporate with my remarks these statements.

GENTLEMEN: I beg to call your attention to an aspect in the operation of the revenue act of 1918, which imposes a tax on every citizen or resident of the United States. While this act is not in force in the Philippine Islands American business men residing there are complaining of the situation that has arisen under it as regards to them. They claim that the effect of the act is to place citizens of the United States residing in the Philippine Islands in practically the same position as citizens of the United States residing in foreign countries.

In view of regulations No. 45, United States Internal Revenue Bureau, the claim seems to be well founded. As the situation now is American residents in the islands are required to pay the income tax imposed by the Philippine laws and, in addition, taxes imposed by the United States laws on American citizens, deducting the amounts paid in the Philippine Islands. While a citizen of the Philippine Islands is subject only to the tax of the Philippine Government on his earnings and income derived from sources in the Philippine Islands, a citizen of the United States doing business in the Philippines now pays not only the Philippine taxes but also the taxes imposed by the United States Government. They are thus placed at a disadvantage with foreigners engaged in trade in the Philippine Islands, as these foreigners are not known to be required to pay similar taxes to their home Government.

It is for these reasons that the Americans in the islands have appealed to the Philippine Legislature for support in their campaign to have the situation remedied, and the Philippine Legislature at its last session passed the following joint resolution:

"Be it resolved by the Senate, the House of Representatives of the Philippines concurring, That the Resident Commissioners be, and they hereby are, instructed to ask Congress

for the amendment of the United States internal revenue act of 1918 in the sense that American citizens who are bona fide residents of the Philippine Islands shall not be subject to any income tax greater than that required of other residents of said islands."

The Philippine government is directly interested in the situation presented, as it is anxious to develop the natural resources of the Philippines, for which purpose it is giving every encouragement to American capital, which is preferred to any other. If American investors in the Philippines will on their income derived from the Philippines be required to pay taxes to an amount equal to the taxes imposed upon American citizens in the United States, there will be no inducement for further investment in the islands, either on their part or on the part of other capitalists who are contemplating such a step.

In an international sense the Philippines is not a foreign country to the United States. This furnishes another reason why American capital invested in the Philippine Islands should, on income derived from Philippine sources, pay only the income or profit taxes imposed by the Philippine government.

It has been suggested that this can be best accomplished by a provision which would deduct from the net income of citizens of the United States the income on which taxes are paid to the government of the Philippine Islands.

In the name of the Philippine government, I most respectfully urge that the committee consider the case at issue, and, if found reasonable, to take steps necessary to relieve the Americans in the islands of the hardship they are now undergoing.

JAIME C. DE VEYRA.

STATEMENT IN RE UNJUST DISCRIMINATION WORKED BY THE UNITED STATES INTERNAL REVENUE ACT OF 1918 UPON AMERICANS RESIDING AND DOING BUSINESS IN THE PHILIPPINE ISLANDS.

In its practical operation the revenue act of 1918 has developed a situation in the Philippines as bizarre as it was doubtless unforeseen by Congress. Certainly no one with complete knowledge of the facts would deliberately sanction or defend the happening. Briefly stated, what has transpired is this:

Prior to 1918 the income-tax rates applicable in the United States were extended to the Philippines and applied uniformly upon all residents of the islands. These taxes, being derived from purely local business, were paid to the insular government.

The revenue act of 1918, however, with its greatly increased rates, was not applied to the Philippines, the former rates being continued in force. Moreover, as all revenue thus collected in the islands accrues not to the United States but to the insular treasury, the Philippine Legislature was empowered to amend, alter, modify, or repeal the income-tax rates theretofore applicable. (Sec. 261.) Under this authority such legislature subsequently enacted an income-tax measure for the islands with rates much lower than those of the United States revenue act. (Acts Nos. 2833 and 2926, Philippine Legislature.)

Had matters stood in this form, there could be no criticism. Unfortunately the revenue act of 1918 went further, however. For the first time in its history our Government undertook to track its citizens throughout the ports and trade centers of the world and levy tribute upon their wholly foreign business. Every American, wherever resident, is now called upon to pay the income tax specified in the United States act; this notwithstanding he may have no assets in the United States and may receive no income whatsoever from sources within its boundaries. (Sec. 216.) It is through this chink in the law that hardship is being worked and disaster now threatens American business interests in the Philippines.

Considered simply as a resident of the Philippine Islands, an American is on an equality with others doing business in competition with him; that is, they all pay the income tax levied by the Philippine Legislature. As a citizen of the United States, however, his equality ceases. In this character he is hunted out by our revenue agents from among all other residents of the islands and assessed the full United States income-tax rates upon his purely Philippine business. The American digs up, while Filipinos, Britishers, Germans, Japanese, and trade rivals of every race and color go their way unmolested.

While the revenue act of 1918 permits citizens of the United States to take credit for any amount paid as income, war-profits, and excess-profits taxes in any foreign country, or to any possession of the United States, derived from sources therein, it is evident that where such local tax is less than the United States tax Americans are discriminated against in the amount of the excess. How the act operates at this time in the Philippines, allowing in each case a married man's exemption, appears from the following table:

Income.	Philippine income tax.	United States income tax.	Difference against Americans.
\$10,000.....	\$235	\$590	\$355
\$25,000.....	910	2,880	1,970
\$50,000.....	2,535	9,190	6,655
\$100,000.....	6,985	31,190	24,205

In a country that does not tax incomes—or in case the Philippines should decide to repeal its law on the subject—the handicap of the American would be the whole of the United States tax. With the figures as they stand, however, what results?

An American conducting a merchandising or other business in the city of Manila, and realizing a net profit of \$50,000 therefrom, pays a combined Philippine and United States income tax of \$9,190. A Filipino, Britisher, Spaniard, Chinaman, Japanese, or citizen of any country except the United States, conducting a like business and earning a like profit, pays an income tax of but \$2,535; that is, \$6,655 less than his American competitor. Should the net income be \$100,000, then the margin against the American is \$24,205. It is evident that to the extent of his advantage in income tax, the non-American can undersell and overbid the American, or can use the amount in advertising or in otherwise pushing his wares.

It is unbelievable that Congress, when enacting this revenue law, intended to thus penalize our own countrymen in favor of those to whom we owed and owe no special obligation. A fair and even chance in competition with aliens is the least that an American has a right to expect—certainly in our own territory and under our own flag.

It has been argued that American citizens doing business abroad have the protection of our Army and Navy, and the other privileges incident to American citizenship, and should therefore pay the United States tax upon their foreign income. Whatever force this argument may have generally—and it is, we think, more sentimental than real—it furnishes no excuse for the discrimination worked against Americans in our own dependency. Americans enjoy no benefits and receive no protection from United States sovereignty in the Philippines which are not shared equally by Filipinos and by resident aliens.

Curiously enough, the argument favoring a tax upon citizens, wherever resident, because of alleged protection and benefits afforded them by the mother country, has a historical precedent of no mean importance; in fact it was responsible for the very origin of the American Nation. In 1775, or thereabouts, Samuel Adams, Patrick Henry, and other of our national heroes, were British subjects. Great Britain was then staggering under a public debt incurred in foreign wars, in which the American colonies admitted a beneficial interest. Parliament imposed certain stamp taxes in the colonies, and Lord Grenville expressed great indignation because his fellow subjects in America objected vigorously to being thus taxed by the sovereign government. The analogy fails in one respect only, i. e., that the British stamp taxes were imposed impartially in the American colony, whereas in our own dependency, the Philippines, the tax imposed upon local incomes by and for the benefit of the home government, applies exclusively to Americans. Had the prerevolutionary stamp taxes been imposed upon British subjects only, it is altogether likely that the remarks indulged by Samuel Adams, Patrick Henry, et al, could not have been printed in our school readers for the inspiration of American youth.

The enactment or attempted enforcement by any of our States of an act analogous to this revenue law of 1918, would be clearly unconstitutional. The fourteenth amendment to the Constitution of the United States declares—"No State shall pass or enforce any law which shall * * * deny to any person within its jurisdiction the equal protection of the laws." This amendment as construed by the United States Supreme Court has been held to mean—

"* * * that equal protection and security would be given to all under like circumstances in the enjoyment of their personal and civil rights;

"* * * that all persons should be equally entitled to pursue their happiness and acquire and enjoy property;

"* * * that no impediment should be interposed to the pursuits of anyone except as applied to the same pursuits by others under like circumstances;

"* * * that no greater burdens should be laid upon one than are laid upon others in the same calling or condition."

Should the State of New York, for instance, enact a law whereby a tax was levied upon one person or concern doing business on Fifth Avenue which did not apply equally to any other person or concern engaged in a like calling, such attempted class legislation would be held null and void by our courts. This revenue act of 1918,

however, in its application to Americans residing and doing business in the Philippines, accomplishes the very thing specifically prohibited by our Constitution; that is, it imposes a greater burden upon the American business man than is laid upon others engaged in the same business or calling under like circumstances.

In its present form such law is not only unjust and inequitable but it is opposed to every tradition and principle upon which our Nation was founded and for which it has stood through all its history. In the interest of a square deal, therefore, no less than of our self-respect as a people, such act, in its application to the local income of Americans resident in the Philippines, should be amended by Congress at the earliest opportunity.

Our case does not rest here, however. The argument for a repeal of such tax on the ground of expediency is no less deserving of consideration.

That the development of our overseas commerce is of vital importance to the prosperity and well-being of the Nation will be questioned by none. It is a subject uppermost at this time in the thoughts and councils of both labor and capital. Bankers, manufacturers, legislators, the press of the country, and men of vision in every calling and profession are to-day bending their every talent and energy to devising ways and means by which our foreign trade can be fostered and preserved.

In order to dispose of our surplus products we must sell them to foreign countries. It is trite to remark that the establishment of American business men abroad will tend to foment American trade with the countries of their residence—this not only as regards merchandising but transportation as well. Our new merchant marine, competing with other vessels throughout the seven seas, should not be forced to rely for cargoes or local representation on citizens of rival nations. In the titanic struggle now waging for trade advantage and commercial supremacy, it is altogether natural that the nationals of competing nations should divert business to their own countries and to their own shipping whenever and wherever the weakness of American competition makes it possible. As matters now stand, however, United States houses can not secure Americans in their overseas branches except at salaries which will offset this difference in taxation against them. No American can establish a business in any foreign country without facing the fact that the disadvantage worked him by this tax may nullify his efforts and leave him at the mercy of his more fortunate rivals.

The situation thus painted can not be dismissed as mere special pleading. Any person who has striven for success in sport or business will know how killing such a handicap may prove. The needs and prestige of our country imperatively require that Americans engage in foreign service and undertake foreign ventures, but it is an ill turn to start them in the race with this tax burden upon their backs. To expect them to win is such case against competitors trained to the minute, and carrying no weight, is to ask the impossible.

The position achieved by Great Britain in world commerce is due in great part to the presence of British resident merchants in almost every port and market of the world. The encouragement afforded such merchants is evidenced by the fact that to-day, despite the urgent need of Great Britain for revenue, no tax is imposed upon local income of British subjects resident abroad. It remained for the United States, at a time when it was seeking to utilize a \$3,000,000,000 merchant marine, and to promote our overseas commerce as against nations old at the game, to thus handicap and penalize its citizens in their struggle to establish and upbuild our foreign trade. With an even break the game is difficult enough. Without it, there is every prospect that the present deficit shown by our aforesaid merchant marine will not only continue but largely increase. For every dollar won from our foreign traders through the imposition of this tax, our Government and people stand to spend or lose at least a dozen.

The attitude of cooperation and helpful assistance assumed by Great Britain toward her nationals engaged in foreign business, is followed by practically all the great trading nations of the world. It should need no diagram to convince, therefore, that in the absence of a like practice by our competitors this thing of taxing our nationals abroad on the theory of "benefits received" may well prove disastrous to both our commerce and revenues. Would it not be better business and better sportsmanship to hold that the services rendered by these pioneer Americans in blazing new avenues for American trade—and thus directly increasing the prosperity of the country and indirectly its revenues—constitute a sufficient requital for any protection afforded them by the Government?

While statistics are not available, investigation would doubtless show that the revenue derived from this source is comparatively negligible. Whatever the amount it is a high price to pay for the discouragement of American enterprise abroad, for the inevitable loss to our manufacturers and producers at home, and for the diminution and possible elimination of American influence as a factor in world trade and commerce.

The logical effect of this tax, if continued, must be to drive our citizens out of foreign communities where they can not compete on even terms, or to give them substantial inducement to acquire a citizenship less burdensome than ours. These consequences, through the law of diminishing returns, would eventually defeat the purpose of the act—without, however, repairing the damage already accomplished. On the other hand, the suggested exemption from such tax will not only tend to greatly stimulate our foreign trade, but will, through the increased revenue derived from profits realized by domestic concerns interested in such trade, much more than compensate the Government for any loss suffered by it from the other source.

While our argument under this head has application to the taxing of local incomes of Americans residing and doing business in any foreign country, it has special application to our insular possessions. The injustice of such tax in that regard is so obvious even to Filipinos, who enjoy an advantage under the present law, that a resolution petitioning Congress to enact the appropriate amendment was passed by the Philippine Legislature. A copy of such resolution is annexed hereto, as also copy of a memorial addressed to Congress by the American Chamber of Commerce of the Philippines, wherein it is earnestly recommended that incomes derived from sources without the United States by nonresident citizens be exempted from taxation.

Considerations of justice and fair dealing, therefore, no less than of business expediency, alike require that the situation created in the Philippines and in foreign countries by this revenue act of 1918, receive attention and early relief at the hands of Congress.

DANIEL R. WILLIAMS,

Representative American Chamber of Commerce of the Philippines.

CONCURRENT RESOLUTION ADOPTED BY THE PHILIPPINE LEGISLATURE.

[Concurrent resolution instructing the resident commissioners to ask the Congress of the United States for the amendment of the United States internal revenue act of 1918.]

Be it resolved by the Senate, the House of Representatives of the Philippines concurring, That the resident commissioners be, and they hereby are, instructed to ask Congress for the amendment of the United States internal revenue act of 1918, in the sense that American citizens who are bona fide residents of the Philippine Islands shall not be subject to any income tax greater than that required of other residents of said islands.

Adopted, February 9, 1920.

MEMORIAL ADOPTED BY THE AMERICAN CHAMBER OF COMMERCE OF THE PHILIPPINE ISLANDS ON NOVEMBER 23, 1920.

The American Chamber of Commerce, for its members and for all citizens of the United States residing in the Philippine Islands, presents to the Congress of the United States this petition for the amendment of the revenue act of 1918, and in support thereof submits the following statement:

Under former acts of Congress income taxes were uniformly imposed upon all residents of the Philippine Islands, Americans, Filipinos, and aliens, and, in accordance with American principles and traditions, such taxes accrued, not to the United States, but to the insular government.

Under the revenue act of 1918 income taxes for the revenues of the United States are imposed upon Americans residing in the Philippines, but not upon Filipinos and others there residing, although all alike share the protection of the United States and the Filipinos owe the same allegiance and enjoy the same rights as American citizens. Other nations, as, for example, Great Britain, do not tax the local income of their citizens or subjects residing abroad.

Americans in the Philippines pay the same taxes to the local government as do their neighbors, and are then required to pay to the United States additional taxes from which their neighbors are exempt. To the extent of such additional taxes Americans are at a disadvantage in competition with others for business.

This handicap operates not only upon the interests of American citizens in the islands, but also to the detriment of American shipping and commerce, whose maintenance and development depend in great measure upon the outlet and representation afforded by Americans established overseas. In the keen competition for the world's trade our merchants and carriers can not afford to rely upon alien representatives or to enjoy representation by our own citizens only at a cost higher than that borne by competitors. But the natural tendency of the present policy of taxation is to eliminate Americans established in business abroad or to induce their expatriation.

The immediate loss of revenue that might result from the proposed amendment would be more than compensated by the resulting stimulus to American foreign commerce and to our merchant marine.

Finally, it is submitted that the taxation of our citizens in the insular possessions upon their income from local sources is repugnant to the principles established in the Declaration of Independence and cherished by the American people.

For these reasons the American Chamber of Commerce of the Philippines earnestly recommends to Congress that the revenue act of 1918 be so amended as to exempt from taxation the income derived from sources without the United States of non-resident citizens.

APPLICATION OF UNITED STATES INCOME TAX TO FILIPINO-AMERICANS.

Statement showing income tax paid in the Philippines by Filipinos and aliens, as compared with income tax levied upon American residents doing business in competition with them.

The United States revenue act of 1918 does not apply to the Philippine Islands, such islands having their own tax laws. The United States act, however, being applicable to American citizens wherever situated, reaches around and seizes American business men in the Philippines to the exclusion of Filipinos and aliens.

Comparison of income tax rates.

	Normal tax.	Exemp- tion.	Maxi- mum sur- tax.
	<i>Per cent.</i>		<i>Per cent.</i>
Philippine Islands:			
1918-19.....	2	\$4,000	13
1920.....	3	3,000	20
United States:			
1918.....	12	2,000	65
1919-20.....	8	2,000	65

The exemption noted is that of a married man.

The maximum surtax in the Philippines for 1918-19, i. e., 13 per cent, applied to incomes in excess of \$1,000,000. The surtax upon a like income in the United States is 65 per cent.

The maximum surtax in the Philippines for 1920 (20 per cent) applies to net incomes in excess of \$2,500,000, whereas the United States surtax of 65 per cent applies to net incomes in excess of \$1,000,000. The Philippine surtax upon a net income of \$1,000,000 is 15 per cent.

Table showing respective taxes for 1920.

Income.	Philippine income tax.	United States income tax.	Difference against Americans.
\$10,000.....	\$235	\$590	\$355
\$25,000.....	910	2,880	1,970
\$50,000.....	2,535	9,190	6,655
\$100,000.....	6,985	31,190	24,205
\$200,000.....	18,235	93,190	74,955
\$300,000.....	31,735	161,190	129,455
\$400,000.....	46,735	232,190	185,455
\$500,000.....	60,735	303,190	242,455
\$600,000.....	77,735	439,190	361,455

The Philippine tax for 1918-19 was less than indicated above, the normal rate for those years being but 2 per cent, whereas we have figured the tax at 3 per cent—the 1920 rate. The surtax for 1918-19 is also slightly less than for 1920. The United States tax, however, would be greater for 1918 than indicated above, the normal rate for that year being 12 per cent instead of the 8 per cent used in our calculation.

At this time Philippine exchange on the United States is between 12 per cent and 15 per cent. This would represent an additional burden upon the American taxpayer when compelled to convert Philippine pesos into United States currency.

Concrete illustration: There is a French concern in Manila handling American automobiles, tractors, etc. In 1919 it is reported to have earned a net profit of ₱1,200,000, equivalent to \$600,000. Upon this it would pay to the Philippine Government an income tax of something less than \$77,735. It paid no taxes upon such income to the French Government. There is also in Manila an American house engaged in handling automobiles, tractors, etc., in competition with the French concern. Upon a like volume of business the American house would be compelled, under existing law, to pay an income tax of \$439,190, besides the exchange for converting such tax into United States currency. Eliminating the matter of exchange, the difference against the American house amounts to \$361,455.

The same situation and the same handicap apply to the local business of every American in the Philippines proportionate to his income.

As Filipinos and foreigners have American agencies, and handle American goods, this extra tax levied upon American business men can not be added to the selling price of their goods. They must meet the prices of their competitors or go out of business. This terrific additional tax levied upon them must be paid out of profits. This can not be done, as no such profits are possible in modern competitive business.

The enforcement of this tax against Philippine-Americans will afford the first and only instance in our dealings with the Philippines where revenue derived from purely Philippine sources has been diverted to the United States Treasury.

When, following our occupation, American business men entered the Philippines, they found British, French, Swiss, German, and other houses, already strongly entrenched, with every advantage of experience and trade connections in their favor—the bulk of the island business being with Europe. In 1899 the total imports and exports of the Philippines amounted to \$34,034,568, of which but \$5,388,341 was with the United States. In 1918 the total trade of the islands amounted \$233,793,943, of which \$197,971,530 was with the United States. In 20 years American business men fought their way to a commanding position in the island trade, most of the increase accruing to the United States.

Thus far no steps have been taken by the Internal Revenue Bureau to collect this United States income tax in the Philippines. Americans coming to the States, however, are compelled to show payment of such tax before they can return to the islands. If the law stands, however, it must and eventually will be enforced, and this from 1918 onward. When and in the event this happens its inevitable effect will be to forfeit the hard-won gains of American business men in the islands; to bankrupt most if not all of them; to eliminate American business interests and deliver the trade of the islands into the hands of foreigners; and, finally, to render illusory all our hopes and plans of making Manila a great distributing center for American products in the Far East.

The only possible method of avoiding this catastrophe is by amendment to the revenue act of 1918 placing American business men in the Philippines upon an equality with other residents of the islands and making such amendment retroactive to include the years 1918 onward. This involves no effort to escape a legitimate tax. The protest is against being compelled to pay such tax when others similarly situated go free. Americans enjoy no benefits and receive no protection from American sovereignty in the Philippines which are not shared equally by Filipinos and by resident aliens. To compel them to pay this higher tax under these circumstances is the rankest sort of class legislation. It is un-American throughout and opposed to our every sense of justice and our every tradition of fair play. It would be equally logical, and work less of a hardship, were United States taxes collected at our ports from Americans only, to the exclusion of nationals of other countries in competition with them.

It can not be believed that Congress, when enacting the revenue act of 1918, ever intended to thus discriminate against our own citizens in our own territory and under our own flag. With the facts before it there should be no hesitation now in forestalling the disaster which the enforcement of such act would surely work upon Philippine-Americans and upon American trade generally throughout the Orient. It is a matter of vital and far-reaching importance and should be remedied before the harm has been altogether consummated.

DANIEL R. WILLIAMS,
Representative, American Chamber of Commerce of the Philippines.

BRIEF OF JOHN S. HORD, CHEVY CHASE, Md.

EIGHTEEN GOOD AMERICAN REASONS WHY UNITED STATES CITIZENS RESIDING IN THE PHILIPPINES SHOULD NOT PAY THE FEDERAL INCOME TAX.

1. Because only American citizens are required to pay it. To tax only American citizens, as such, is class legislation and means confiscation.

2. Because no other country, even during the stress of war, has taxed its nationals abroad. Therefore the United States in taxing American merchants in the Philippine Islands renders valuable aid to their business competitors who are nationals of other countries. America in this commits a blunder of the first magnitude. Patriotically endeavoring to build up American trade abroad these pioneer Americans are rewarded by being penalized by their own country.

3. Because it is a direct throw back on the much advertised commercial policy of this country, i. e., to encourage American foreign trade. Economically considered, from a national viewpoint, the proposed squelching of American commercial enterprise in the Philippines would result in far more national outgo than would the scant income derived from this new source of Federal revenue in the islands. And let us remember that Manila is America's far distant base from which should in future radiate our commercial expansion in the Far East, now only in its incipency.

4. Because during an address by Secretary of Commerce Hoover, delivered at Atlantic City on April 28, 1921, at the annual convention of the United States Chamber of Commerce, he stated:

"Our competitors hold the front line and naturally we lose the business when competition arises. If our laws are inadequate to stimulate, protect, and give equality to American citizens who exile themselves in trade abroad, then we should legislate further. One thing is certain, that so long as nonresident Americans are the only nationality who pay taxes to their home Government on foreign earnings, they have no equality in competition."

5. Because the Eighth National Foreign Trade Convention announced at Cleveland on May 7, 1921:

"We submit that the policy of taxing Americans abroad upon income derived from within the country of residence is fundamentally uneconomic, is really restrictive rather than productive of revenue, and is a handicap upon the promotion of domestic commerce dangerous to the success of American enterprise abroad and bound to react disadvantageously upon industry at home. The United States is the only great commercial nation which pursues this policy and we urge Congress to abandon it in the forthcoming revision of the revenue laws."

6. Because the United States Chamber of Commerce as a result of the answers to its questionnaire, in a country-wide referendum, has recommended that nonresident American citizens be not taxed upon their wholly foreign incomes.

7. Because, viewed practically, this period of depression is certainly not the psychological moment in which to cut off from this country about \$200,000,000 of foreign trade. Yet the driving of American commerce out of the Philippines means just that. It means a deliberate and gratuitous gift to European and other nations of \$200,000,000 worth of trade annually which pioneer Americans have laboriously built up during the last twenty-odd years.

8. Because the obnoxious stamp taxes 150 years ago were really more fair than are the income taxes to-day as applied to Americans in the Philippines. Great Britain then taxed all alike—both native Americans and resident foreigners in the United States. America to-day in the Philippines discriminates; she taxes only the American citizen and lets the foreigner go scot free.

9. Because our Constitution provides—

"That no law shall be passed or enforced which denies to any person the equal protection of the laws."

Therefore to limit in the Philippines the application of the income tax law exclusively to American citizens is unconstitutional and indefensible.

10. Because the Filipinos who are certainly the most competent witnesses to the injustice done Americans in the Philippines by the revenue laws of this country, adopted the following concurrent resolution on February 9, 1920:

"Be it resolved by the Senate, the House of Representatives of the Philippines concurring, That the Resident Commissioners be, and they hereby are, instructed to ask Congress for the amendment of the United States internal revenue act of 1919, in the sense that American citizens who are bona fide residents of the Philippine Islands shall not be subject to any income tax greater than that required of other residents of said islands."

11. Because even though the taxation of American citizens living in foreign countries might by some be considered justified (which is not, however, heretofore admitted) certainly in the Philippines such policy is neither fair nor wise and is not even legal because those islands are domestic territory of the United States. American citizens out there enjoy no benefits and receive no protection from our sovereignty which are not also enjoyed by Filipinos and resident aliens.

12. Because the inevitable tendency of our present Federal policy of taxing American citizens residing overseas is to eliminate them from business. This operates as a handicap both to the American merchants living abroad and also to American shipping, import, and export interests. The maintenance and development of American trade abroad depends mainly on the output and representation of Americans established overseas. In the keen competition for the world's trade our merchants and carriers can not afford to rely upon alien representatives nor even on representation by American citizens laboring under a tax burden not borne by their competitors.

13. Because Chief Justice Taft, several months ago, in an article published in the Philadelphia Public Ledger, wrote as follows:

"By the present law American residents in the Philippines are treated as if living in a foreign country and are subject to the American income tax of 1918, less what they pay under the income tax of 1916, as that has now been modified by the Philippine Legislature. This is a departure from the heretofore consistent policy of the United States in the past of not imposing a tax in the Philippines for the benefit of the Treasury of the United States. * * * If these (taxes) are collected the American firms will cease to be. They should be relieved of these obligations and freed from future taxation of this kind. * * * Congress should give immediate attention to this."

14. Because during the last 23 years it has been one of America's proudest boasts that she had not in the past and should not and would not in the future exploit a foreign people; that not a cent of tribute had she received nor would she attempt to collect from the Philippines. How then can she now justify her course in exacting a contribution to her Federal Treasury from residents of a country which voluntarily subscribed more than its quota of Liberty bonds during the World War?

15. Because in imposing a Federal tax on American residents in the Philippines Congress has legislated on tax matters for the Philippines as it does normally for the District of Columbia. Let us then suppose that Congress should, for the sake of consistency, put the District of Columbia on the same tax basis as exists in the Philippines, i. e., by legislating that all American citizens in the District should pay a normal income tax of 8 per cent with a maximum surtax of 65 per cent, while competing foreigners of all nationalities, residing in the District, should pay a normal tax of only 3 per cent with a maximum surtax of only 20 per cent. How long, in such event, would it take the Capitol on the hill to become a legislative hall deserted?

16. Because America's avowed and manifest intentions with regard to the administration of tax laws is to deal out the very quintessence of justice to those of its nationals who remain at home. But when it comes to Americans who go abroad, why they are promptly hazed by the operation of an almost incredible provision of a tax law enacted by their fellow citizens who remained at home. Can this be the practical outworking of a theory, enunciated by a former American Secretary of State, to the effect that Americans had no business to be abroad anyway? Well, unless the present revenue law is promptly amended Americans will soon have no "business abroad" left to them—and thus the eventual soundness of the former Secretary's theory will be proved.

17. Now if the American business man in the Philippines could but shift the incidence of his income tax, loading the goods he sold with the amount thereof, all would be well and the foregoing 16 reasons telling why he should not pay the tax could be forgotten. But unfortunately the American business man in the Philippines is forced by economic law to himself absorb a tax which is not also borne by his competitors. He can not pass the tax along; competition will, of course, prevent that. He is placed in the identical situation in which a prohibitive import tariff rate in this country places the European producer against whom such prohibitive import duty is aimed. The European producer can not profitably export to the United States. The American merchant in the Philippines can not profitably sell anything to anybody. That tax laws enacted by the American Congress should prove detrimental to the interests of foreign producers and exporters to the United States is regrettable but nevertheless quite understandable. But that an American Congress should enact a tax law the inevitable operation of which is to penalize American business men abroad while fostering the commercial aspirations of their foreign competitors, is quite incomprehensible.

18. To any but the most skeptical the foregoing 17 reasons should afford convincing proof that the provisions of the United States revenue act of 1918 taxing American

citizens abroad are (1) bad economics, (2) bad Americanism, and (3) perhaps bad faith or else lazy-mindedness on the part of those who remained at home and whose patent duty it was to protect the interests of their absent fellow citizens who went abroad.

Fortunately this particular dog's bark has so far proved worse than his bite. Because the Federal tax administration has so far failed to provide in the Philippines the necessary machinery to enforce the payment of these taxes and the few payments so far made have been by Americans visiting this country. But the tax provision remains in the statutes and will assumedly, sooner or later, be enforced.

Anyone agreeing that this tax should be collected neither now nor in the future will also readily agree that neither should it have been collected in the past. The worst feature at present about the whole complicated mess is the constant threat in most cases of insolvency, which it holds over the head of the American business man in the Philippines.

Therefore it is earnestly recommended that Congress, with as little delay as possible, do two things either by amendment to the present statutes or by separate enactment or by both, as to it may seem most fit, and providing substantially as follows:

That in the Philippine Islands the income tax shall be levied, assessed, collected, and paid in accordance with the laws enacted by the Legislature of the Philippine Islands. Neither the provisions of this act nor the provisions of the revenue act of 1918 shall apply to, nor shall taxes be collected thereunder upon income derived by any individual or corporation from sources within the Philippine Islands.

BUILDING AND LOAN ASSOCIATIONS.

H. F. CELLARIUS, CINCINNATI, OHIO, SECRETARY UNITED STATES LEAGUE OF LOCAL BUILDING AND LOAN ASSOCIATIONS.

The CHAIRMAN. You are down here to represent the United States League of Local Building and Loan Associations?

Mr. CELLARIUS. Yes, sir. Senator Hennessy, of New York, was to have appeared for the building and loan associations here to-day, but, unfortunately, has been overcome by the heat in the station at New York yesterday afternoon en route here and for this reason is not able to be present.

The CHAIRMAN. Yes.

Mr. CELLARIUS. I am very sorry he is not able to be here, because he could present this matter much better than I could, because he has given it a great deal of attention.

The Congress of the United States has in all of the income tax acts that have been passed exempted the building and loan associations from the operation of the tax, and, I think, wisely so, because it is good public policy, and I trust, of course, that they will continue to have these exemptions in any further bills which may be presented for enactment. There are comparatively few people in the country who realize the important development of the building and loan associations in the United States in the last decade, during which period they have more than doubled their assets. There are now in the United States 8,633 associations with a membership of nearly 5,000,000 members, and assets aggregating over two and a half billion dollars. The particular business of these associations, as you are probably aware, is accumulation of funds through small weekly or monthly payments, and the funds are loaned to members and others for the purpose of building and owning homes. The amount placed by these associations annually is between seven and eight hundred million dollars. They do their business at an expense of eight-tenths of 1 per cent. While they are classed as corporations for profit, yet they do business of a philanthropic nature, and most of their directors serve without pay, only the secretary

and the manager receiving a salary. There is no other financial agency in the country which is doing the stupendous work that these institutions are doing in encouraging systematic thrift or in assisting persons of moderate means in acquiring or in purchasing homes.

Mr. GREENE. Did I understand you to say that they have assets of two and a half billion dollars?

Mr. CELLARIUS. Yes, sir. The country has been confronted by an abnormal housing shortage, brought about mainly by the fact that during the war the Government stopped all building operations except such as were necessary for war purposes. The building associations of the country have been appealed to by various Government agencies to assist in relieving the housing shortage and these associations have responded to the extent that they were able, but they have been suffering from a shortage of funds.

We can confirm the statement which was recently made by Secretary Hoover in his Chicago address, that the housing scarcity is the most serious problem of reconstruction, and he estimates this shortage to be one and a half million homes. The advance figures of the census indicate a growing decrease of home owning and a corresponding increase of tenantry. It has been demonstrated that the building and loan associations are practically the only agency that can be depended upon by the average man for relief from these conditions, as these associations place all of their funds, or practically all, in mortgage loans.

The building and loan associations are willing to lend every aid possible toward relieving the present acute housing situation and they believe that they should be encouraged in every way possible to the end that they may be able to expand their usefulness. It is proposed as one of the means of accomplishing this end to amend section 213 of the revenue act of 1918 by adding a new subdivision as follows:

(9) So much of the amount received by an individual as dividends or interest from domestic building and loan associations, organized and operated exclusively for the mutual benefit of their members, as does not exceed \$500.

We are appearing before your committee requesting favorable action on this amendment and we urge that it be incorporated in the revenue bill which is now under consideration and construction. We believe that such an amendment will attract additional funds to the building and loan associations and it is unlikely that it will affect the public revenue seriously, but it will enable building associations to increase their mortgage loans, thus helping general industrial recovery through stimulating various and diverse interests engaged in the building-construction business.

I would like to insert for the record and for the information of the committee statistics relating to the building and loan associations for 1920, showing the assets by States, and membership, the total number of associations, also a comparative statement showing the increase from 1893 to the present time.

Number of associations, total membership, and total assets, by States, 1920-21.

[For States in which accurate statistics are compiled by State supervisors.]

States.	Number of associations.	Total membership.	Total assets.	Increase in assets.	Increase in membership.
1. Pennsylvania ¹	2,785	1,000,000	\$475,000,000	\$74,202,493	164,252
2. Ohio.....	775	973,168	462,790,288	81,311,585	148,893
3. New Jersey.....	939	426,264	238,908,007	39,637,974	71,700
4. Massachusetts.....	202	296,411	174,042,652	19,166,652	34,411
5. Illinois ¹	700	269,000	137,000,000	8,748,995	16,500
6. New York.....	267	249,174	115,779,799	15,520,785	40,175
7. Indiana.....	358	212,300	109,721,337	15,498,139	1,599
8. Nebraska.....	74	119,131	77,939,337	12,171,277	6,263
9. Michigan.....	75	99,765	50,976,795	8,568,679	7,666
10. California.....	87	42,420	47,851,294	9,476,962	4,192
11. Louisiana.....	68	80,000	46,183,575	11,669,244	17,094
12. Wisconsin.....	97	87,000	43,641,142	12,079,058	19,152
13. Missouri.....	181	71,494	40,863,168	7,484,719	12,214
14. Kansas.....	90	82,500	39,100,000	5,989,770	6,641
15. Kentucky ¹	119	75,000	35,000,000	4,542,714	8,000
16. District of Columbia.....	21	45,525	30,125,125	2,579,192	1,276
17. Oklahoma.....	62	46,343	28,560,423	11,171,622	17,875
18. North Carolina ¹	145	58,000	26,000,000	2,547,229	4,879
19. Washington.....	43	55,354	20,175,163	6,840,410	7,989
20. Arkansas.....	49	28,000	17,886,788	3,132,984	1,308
21. Iowa.....	68	49,000	17,654,390	3,343,903	8,500
22. Minnesota.....	63	23,904	11,354,493	1,730,308	304
23. Colorado.....	42	22,000	10,986,445	1,915,411	4,000
24. West Virginia ¹	50	27,700	10,700,000	825,435	1,710
25. Maine.....	39	17,548	9,248,460	1,198,030	2,064
26. Rhode Island.....	8	14,680	8,126,956	997,063	1,810
27. Connecticut.....	30	18,615	7,097,282	1,137,217	2,115
28. South Carolina.....	129	15,920	5,777,452	331,508	970
29. Oregon.....	10	17,611	5,200,457	629,068	6,511
30. New Hampshire.....	25	11,067	4,700,829	588,085	1,958
31. South Dakota.....	16	6,515	4,006,312	99,940	170
32. Montana.....	21	16,156	3,667,486	1,100,289	8,780
33. North Dakota.....	12	7,325	4,656,795	744,825	1,490
34. Tennessee ¹	12	5,800	3,500,000	388,766	1,750
35. Texas.....	31	9,360	3,251,891	593,891	1,695
36. New Mexico.....	13	4,100	1,707,200	319,333	745
37. Arizona.....	4	3,100	1,173,812	93,288	230
38. Vermont.....	7	1,499	548,618	137,615	572
Other States ^{1, 2}	916	374,170	189,981,000	24,780,128	37,140
Total.....	8,663	4,962,919	2,519,914,971	393,294,581	673,593

Progress of building and loan associations since accurate statistics became available in 1893.

Year.	Number of associations.	Total membership.	Total assets.	Yearly increase or decrease in assets.	Annual per cent increase in assets.	Annual average due each member.
1893.....	5,598	1,349,437	\$473,137,454	.....	.....	\$350.62
1895.....	5,770	1,545,129	579,627,765	\$106,490,311	22.50	375.13
1896.....	5,776	1,610,300	588,388,695	15,760,930	3.22	371.60
1897.....	5,872	1,642,179	601,130,037	2,741,342	0.46	366.05
1898.....	5,576	1,617,887	600,135,739	994,248	1.16	370.95
1899.....	5,485	1,512,685	581,866,170	18,269,569	3.04	384.65
1900.....	5,356	1,495,136	571,366,628	10,499,542	1.80	382.15
1901.....	5,302	1,539,593	565,387,966	5,978,662	1.04	367.22
1902.....	5,299	1,530,707	577,228,014	11,840,048	2.09	377.09
1903.....	5,308	1,566,700	579,566,112	2,338,098	.40	369.92
1904.....	5,265	1,631,046	600,342,366	20,776,274	3.59	368.07
1905.....	5,264	1,642,127	629,344,257	29,001,871	4.63	383.25
1906.....	5,316	1,699,714	673,129,198	43,784,941	6.95	399.94
1907.....	5,424	1,839,119	731,508,446	58,379,248	8.67	397.74
1908.....	5,599	1,920,257	784,175,753	52,667,307	7.49	408.37
1909.....	5,713	2,016,651	856,332,719	72,156,966	9.20	424.63
1910.....	5,869	2,169,893	931,867,175	75,534,456	8.82	429.45
1911.....	6,099	2,332,829	1,030,687,031	98,819,856	10.60	441.81
1912.....	6,273	2,516,936	1,137,600,648	106,913,617	10.37	451.98
1913.....	6,429	2,836,433	1,248,479,139	110,878,491	9.74	440.16
1914.....	6,610	3,103,935	1,357,707,900	109,228,761	8.75	437.41
1915.....	6,806	3,334,899	1,484,205,875	126,497,975	9.31	445.05
1916.....	7,072	3,568,432	1,598,628,136	114,423,261	7.79	447.98
1917.....	7,269	3,838,612	1,769,142,175	170,514,039	10.66	460.37
1918.....	7,484	4,011,401	1,898,344,346	129,202,171	7.30	473.23
1919.....	7,788	4,289,326	2,126,620,390	228,276,044	12.02	495.80
1920.....	8,633	4,962,919	2,519,914,971	393,294,581	18.49	507.75

¹ Estimated. ² Including Maryland and Alabama, heretofore reported separately. ³ Decrease.

Mr. HOUGHTON. The money that the building and loan associations get to put up houses for their members is obtained, as I understand, by the sale of stock?

Mr. CELLARIUS. Yes, sir.

Mr. HOUGHTON. On which payments are made monthly?

Mr. CELLARIUS. Usually a member subscribes for stock which is paid for by weekly or monthly installments, and these funds are used as they are received by the building associations in making loans upon homes.

Mr. HOUGHTON. And then at the end of that period the stock is fully paid up and the interest accrues out of that source?

Mr. CELLARIUS. Yes, sir.

Mr. HOUGHTON. What does that interest average? Have you any idea?

Mr. CELLARIUS. It will average about 5 per cent, I should say.

Mr. HOUGHTON. Will it not average nearly three times that?

Mr. CELLARIUS. No.

Mr. HOUGHTON. Does not all the money that is forfeited in these series play a part in increasing the interest rate?

Mr. CELLARIUS. There are no forfeitures in building associations any more. That used to be the system years ago. But the laws of nearly all the States require that the associations pay back to their members the amounts that have been paid in.

Mr. HOUGHTON. With interest?

Mr. CELLARIUS. With interest, or a percentage of the profits.

Mr. HOUGHTON. What is the precise exemption asked here—\$500?

Mr. CELLARIUS. That the income derived by an individual to the amount of \$500, which would mean an investment of about \$10,000 in a building and loan association, shall be exempted.

Mr. HOUGHTON. In other words, if I would put in a building and loan association a sum of money which at the end of the period would amount to \$10,000, that would be exempted?

Mr. CELLARIUS. The income derived from that \$10,000.

Mr. HOUGHTON. Why?

Mr. CELLARIUS. We believe that is wise public policy to encourage these building and loan associations to make more loans to members.

Mr. HOUGHTON. Ten thousand dollars seems to be a very favorite sum here this morning. I wondered if you had hit on the same thing.

Mr. CELLARIUS. We thought that was about the right amount that Congress should allow to an individual as funds the income from which to be exempt when received from these associations, and the more funds that they are able to acquire the more loans they are able to make for the purpose of relieving the housing shortage.

Mr. HOUGHTON. Very naturally. You might even make some other interest to exempt. I was wondering if you had some specific reason other than the general statement that it is good for people to have homes. I entirely agree with that.

Mr. CELLARIUS. I believe the loan associations are about the only agency which confine themselves to making loans upon homes. Savings banks do that to a limited extent only. Their funds are subject to demand and they must be kept liquid, and for that reason they are not able to make all of their loans upon long time. In addition to that they do not like to be bothered with making small

loans. The loans they make are on large apartment houses or buildings, business houses, and so forth.

Mr. Chairman, I would like to ask the privilege of the committee hearing two gentlemen for five minutes each. They are Mr. McCaffrey, a representative of the Building Association League of Pennsylvania, and Mr. H. V. Haymaker, of Indiana.

Mr. GREENE. It is your idea, as I understand, that if this amendment was adopted that it would induce people to buy stock in building and loan associations who are not themselves members now?

Mr. CELLARIUS. Yes, sir; it would attract additional funds to the building and loan associations.

Mr. LONGWORTH. Have you made any sort of estimate about loss of revenue on it?

Mr. CELLARIUS. I think it would be very small. Of course, I have no means of making an accurate estimate, but the man of very large means would hardly use the building and loan association because it is too small an amount; that \$10,000 would not interest him to any great extent, so that the funds would come more largely from the man of average means, and his income or tax on his income would not reach the high surtax limits.

Mr. LONGWORTH. I am afraid that even so there are so many non-taxable securities that yield more than 5 per cent that this exemption of tax from his investments probably would not offer a very attractive field.

Mr. CELLARIUS. Building associations do not give the same rate of income that could be obtained from more favorable investments, as you say, but an exemption of this kind would attract money from a great many people who are not so much interested in the rate of the return as they are in the safety of their funds, and moneys deposited in building and loan associations are considered about as safe a place as they can be placed, and they are not subject to depreciations that many other investments are, such as stocks.

THOMAS H. McCAFFREY, PHILADELPHIA, PA.

The CHAIRMAN. State your name, whom you represent, and where you are from.

Mr. McCaffrey. I am Thomas H. McCaffrey, of Philadelphia. I represent the Building Association League of Pennsylvania, and am a member of the legislative committee of the United States league.

According to the report of the banking commissioner of Pennsylvania, ending 1919, he estimated the total assets of the building and loan associations of the State of Pennsylvania exceeded \$400,000,000; that they had increased during that time probably \$50,000,000; and that the number of shareholders had increased from 709,000 to 835,000, an increase of 126,000. The commissioner said that during that time the building associations had been instrumental in financing and affording homes to the number of 46,000—that if collected in a group would make a large city. In the State of Pennsylvania his report shows that there are 800,000 stockholders of building and loan associations, all members of the associations. In the State of Pennsylvania there are probably 2,800 building and loan associations.

The main point I submit to the committee is this—that the Government for years past, and especially during the war, has been hard

put to afford homes for the people, and after trying several expedients in order to overcome this situation, it was finally determined that the only way that homes could be afforded to the people was by individual initiative, and that is by joining building and loan associations.

I submit that in the State of Pennsylvania that the sums invested by stockholders are not as large as \$10,000. Probably 50 per cent of these stockholders have five shares in the associations for 11½ years, which would be worth \$1,000, and the income on that realized by the individual stockholder holding five shares would be about \$350. Aside from the question of the saving to the individual stockholder, and I say that Pennsylvania being to-day a manufacturing State, being greatly interested in manufacturing, these stockholders, holders of very small holdings, 50 per cent, I would say, having about five shares each, should be encouraged in joining building and loan associations. They have a little money in the association and looking around to purchase a house, they may purchase it. All should be done, I submit, by the Government, to encourage people to join building and loan associations, because in the city of Philadelphia, I should say that 50 per cent, and probably 75 or 90 per cent of the holders and owners of dwellings, two-story dwellings, which were built some years ago at about \$2,000 to \$2,500, probably as low as \$1,500, have purchased those properties through the instrumentality of the building and loan association. So that encouragement should be given to the people in general to join building and loan associations, and by affording the small exemption of \$500 it will go a long way toward encouraging the purchase of shares in building and loan associations and thus lead to the purchase of homes, which the Government is seeking to do.

K. V. HAYMAKER, SOUTH BEND, IND.

Mr. HAYMAKER. I represent the United States League of Building Associations, the same organization as represented by the two gentlemen who have just spoken. In the few minutes that I will occupy your time I wish to direct my attention especially to answering the question asked by Congressman Longworth as to how this proposed amendment will affect the revenues of the Government.

The home-building proposition is one of the most important problems which confronts every community in America to-day. It is of such grave importance that last January the United States Chamber of Commerce called a housing conference, which met here for three days in Washington to discuss it. They devoted all their time to the discussion of this problem and devising some ways and means by which to satisfy and finance the building of American homes that they absolutely needed for every community, practically, in America. Two weeks ago the National Association of Real Estate Boards held a four-day session in Chicago; by the way, it was the largest meeting of business men that was ever gathered in America. More than 4,300 delegates were registered, representing every State in the Union and most of the Provinces in Canada. They are hard-headed business men. Some technical matters that pertained to their business were on the program, but at every meeting, in some shape or form or another, this question came up, how shall we satisfy and

finance this demand for homes that is confronting us in every community represented there?

One great problem is finding the money with which to finance the building of homes. Most of the construction work must be done by some form of credit. There is to-day just this one institution, which is represented by these gentlemen here, the building and loan associations of America, which encourages the building of homes and finances the construction of new buildings, new homes in America. How will this measure affect the revenues of the Government? This proposes that \$500 of income, in addition to the usual exemption, that is derived from investments in building and loan associations shall be exempted from the tax. I think there is little doubt that the exemption of so small an amount will not be attractive to millionaires who are investing in tax-exempt securities. It is not the great swollen fortunes that will take advantage of that sort of proposition. The total amount that can be invested will be about \$10,000, and, as Mr. Cellarius stated, the income on that is about \$500 in the ordinary association unit, and the bulk of those investments will be made by people whose total income is under \$5,000, so that the rate of tax on that \$500 would be 4 per cent. That is, the maximum loss of revenue to the Government would be \$20 on a \$10,000 investment. But what is the result of that? By waiving the revenues of \$20, the Government has secured an investment in home building construction work, an investment of \$10,000; that is, for every dollar of revenue lost there is \$500 invested in building new homes.

This same problem is confronting the other nations. England is handling it in characteristic fashion. The Government of England is to-day investing about \$500,000,000 per year of Government funds in building homes, which they are selling to the people. We do not want that policy adopted in America. What we want here is to provide facilities and not subsidies. The true relation, as I understand it, in our system of government between the citizen and the Government is that the citizen should maintain and support the Government, and not the Government maintain and support the citizen. Now, suppose we take the policy that England has and subsidize the building of homes with Government funds. The building associations of America last year invested more than \$500,000,000 in new mortgages in America. Nearly every dollar of that went to build new homes, as much as the English Government was doing for her whole people. If America should adopt the subsidy plan and invest \$500,000,000 a year, it means that at least \$20,000,000 of revenue would be required to pay the interest on that \$500,000,000 of Government subsidy. Here by the waiving of \$1,000,000 of revenue you would secure \$500,000,000 of investment in new homes. It is the cheapest, easiest, best plan that has ever been suggested for the Government to help the building of homes at the least Government expense. I do not anticipate that there would be \$500,000,000 invested under the terms of this proposed amendment. It would be much less than that. That is about the total amount which the building associations of America loaned last year. I do not suppose that this amendment would double it. It would be much less than that. I hope that I have answered the gentleman's question.

Mr. HAWLEY. According to your figures, there would be \$20 saving to the investor on \$10,000, on the annual payment of income tax.

Mr. HAYMAKER. Yes, sir.

Mr. HAWLEY. That is, at present he would get 4.8 per cent, and under your proposition he would get 5 per cent.

Mr. HAYMAKER. Yes, sir.

Mr. HAWLEY. Do you think that difference of two-tenths of 1 per cent would accomplish the purpose you are seeking?

Mr. HAYMAKER. I think it would.

Mr. FREAR. What additional amount of money do you estimate would be offered for investment?

Mr. HAYMAKER. There is no basis to form an estimate on that. That depends altogether on the efficiency with which the building associations press home the advantages of their kind of investment, and that evades computation or estimate at this time.

Mr. HOUGHTON. One point I think the committee should know, and that is, you are confronted with 8 per cent interest everywhere.

Mr. HAYMAKER. Yes, sir.

Mr. HOUGHTON. Would not the tendency be, therefore, instead of putting money into building associations at a lesser rate, to put it into mortgages elsewhere at 8 per cent?

Mr. HAYMAKER. That is true with a great many people, but, on the other hand, there are a great many people who are more interested in the absolute safety of their money, which it has been demonstrated they get in building and loan associations with less risk, more than they are in an abnormal rate of interest.

Mr. HOUGHTON. I was trying to help your position there. It is a fact that you can get reasonably and practically safe investments at 7 and 8 per cent. That tends to take money out of the building and loan associations; therefore, you want an exemption here to give them a fair chance.

Mr. HAYMAKER. That is exactly the reason for it.

CONSUMPTION TAX.

FRANK J. MOSS, AMERICAN SASH AND DOOR CO., KANSAS CITY, MO.

The CHAIRMAN. We will hear Mr. Frank J. Moss, of the American Sash and Door Co. That sounds like a lumberman, Mr. Moss.

Mr. MOSS. You should be quite at home with what I have to say, although I am dealing generally with taxes, rather than a specific item. I wish to state, Mr. Chairman and gentlemen of the committee, that it is a great honor and privilege that I am permitted to come before you to-day because you have to consider to my mind the biggest problem that we have to deal with. I believe the peace and security of this country depends very largely upon the wisdom with which you dispose of this proposition. I regret my inability to present what I have to say in the fashion that it should be presented. I am not a speaker and have never made a public speech in my life. I have been a student of economics and costs and labor problems, but never a public speaker.

In my study of this problem I agree with the conclusion of some of our greatest tax experts, and that is that all taxes, save only a direct property tax, must be considered as consumption taxes. Regardless

of the name or form, in the last analysis, as stated, all taxes except direct property tax must be considered consumption taxes. I am, as you understand, engaged in the lumber and mill business, which is a necessity, and can in no wise be considered a luxury. However, I wish to say a few words in connection with so-called luxuries. As you are aware, in excess of 85 per cent of the cost of all manufactured articles is represented in labor. In the case of luxuries a far greater per cent than 85 is represented in labor; so that, gentlemen, any tax that tends to restrict the demand for luxuries affects labor directly more than does a tax upon necessities or commodities, because if by reason of such restriction the production of luxuries has been curtailed, then of necessity those workmen who have been engaged in the manufacture of luxuries are forced into other industries in competition with other workers, and at a lower wage than they are in position to command in the industry in which they are employed. So that taxes bearing directly on luxuries, much as we may be disposed to favor such tax upon the theory that the rich should pay, and which idea I favor, should be considered from the standpoint of the effect it will have upon labor.

Mr. FREAR. That is, you prefer to tax necessities rather than luxuries.

Mr. MOSS. I believe in one horizontal tax covering all sales and operations applied as outlined in the plan which I submit.

Mr. FREAR. You are not going to discuss the sales tax?

Mr. MOSS. I am going to discuss a general tax which, as stated, has not been given a name. As a matter of fact, the name of a tax usually indicates only the point at which it is collected.

Mr. FREAR. The reason I say that is because all those who were going to speak against the consumption tax have been ruled out by the committee, because the committee is not going to consider that. If you are going over the subject upon any other tax, of course that is all right.

Mr. MOSS. If you will bear with me until you have the entire plan before you, some matters now in doubt will be made quite clear.

Mr. FREAR. That is on the so-called consumption tax.

Mr. MOSS. Quite so; yes, sir. I believe I can present a plan here that will completely overcome what has been a legitimate objection to the so-called sales or consumption tax. At the outset I wish to state that it is not the amount of the tax, but the uncertainty of the amount and the expense and constant annoyance and frequent changes that hurt. The injection of a little horse sense, the observance of sound economics, with simplicity, uniformity, and stability will enable us to forget the tax problem.

Bearing directly upon this subject, the inspectors have been in our plant for the last five weeks working upon our tax report, going back as far as 1914, and the statement was made here this morning that the matter of these tax reports had been simplified so that the layman could construe the present tax law as the experts construe it.

Mr. GREEN. You mean alleged experts?

Mr. MOSS. Yes, sir; they have formulated a report and have submitted it to the higher-ups, and notwithstanding that they are supposed to be experts, they are unable to anticipate the department rulings, which it is now said the layman can work out.

Mr. FREAR. Are those Government officials?

Mr. Moss. They are Government officials. I would further state that our tax report was made out by our own accountants, approved by one of the best firms of public accountants in the country, and approved by a tax specialist from Washington. We did not get anywhere, and we are still in doubt as to the tax we shall be called upon to pay.

Mr. GREEN. They do not seem to be able to get them out.

Mr. Moss. I have heard one or two able attorneys make the statement that no living man could intelligently construe the present tax law, and they made this statement without prejudice.

Mr. GREEN. It was not prejudiced?

Mr. Moss. It was not prejudiced.

Mr. GREEN. I do not believe they know what prejudice is.

Mr. FREAR. That is judgment.

Mr. Moss. It is a conclusion from observation, that he could not arrive at a definite answer to the problem.

Mr. LONGWORTH. This was on account of the excess profits, was it not?

Mr. Moss. It is on account, chiefly, of the fixed-asset accounts.

Mr. LONGWORTH. It has relation to the invested capital, profits, and labor upon invested capital?

Mr. Moss. Yes, sir.

Mr. LONGWORTH. I think it would be safe to assume it is in the excess-profits tax.

Mr. FREAR. Are you safe in assuming? It may not be the universal judgment of Congress. The gentleman has had some disappointments in the past; I am not sure he will not have here. He speaks without authority when he attempts to express the judgment of the committee.

Mr. Moss. A tax of 1 per cent applied on property and operations and a moderate income tax will yield a revenue of approximately \$2,000,000,000. It is absurd to contend that such a tax will work a hardship to anyone, or affect the general prosperity of the country. Assuming that this tax will be passed on to the consumer, and it can not be otherwise under any tax law, statements to the contrary notwithstanding, in the last analysis it would result in an increase of approximately \$10 for every \$1,000 spent. The man who would complain of such a tax is not a good citizen. The tax would be definite, and there could be no pyramiding growing out of uncertainty as at present.

Mr. GREEN. What are you speaking of now?

Mr. Moss. I am speaking of a tax of 1 per cent applied to all sales and operations as outlined in my plan.

Mr. OLDFIELD. That is, you mean a sales tax.

Mr. Moss. I have not named it. The name is immaterial, as stated, only indicating from whom the tax is collected, such tax ultimately being passed along to the consumer.

Mr. OLDFIELD. You say it will always be passed on?

Mr. Moss. I say that it will always be passed on. I say that all direct taxes, except direct property taxes, are passed on, and that it can not be otherwise.

Mr. FREAR. That is a direct contradiction of some of the best tax experts in the country. Unless you are a tax expert I think that is a dangerous statement.

Mr. HAWLEY. I suggest that we hear what the gentleman has to say, and then ask questions.

Mr. MOSS. I would like to go into that point, or any other phase of the matter.

Mr. GARNER. I did not catch that statement. You said that all taxes are consumption taxes, except what?

Mr. MOSS. Direct property tax.

Mr. GARNER. Direct property tax?

Mr. MOSS. Yes, sir.

Mr. GARNER. What do you mean by direct property taxes?

Mr. MOSS. I say that a tax that is levied upon property owned by any person is a direct property tax whether the property be money or wares or real estate and buildings, and that that is in the last analysis the only tax that will not ultimately be passed on to the consumer.

Mr. GARNER. Let me ask you—I do not want to go into your personal affairs, but I presume you are a wealthy man.

Mr. MOSS. I do not pretend to be.

Mr. GARNER. What constitutes wealth to a man?

Mr. MOSS. I am unable to answer that.

The CHAIRMAN. A man who is sound above the eyes is wealthy.

Mr. GARNER. According to that definition, Mr. Fordney is the wealthiest man in the country. Let us assume a man worth \$1,000,000 dies and the Government takes \$200,000 of his property, puts it into the Treasury, and disseminates it among the people—do you say that tax is a direct tax on consumption?

Mr. MOSS. I say that is a property tax, because it can not be passed on to a subsequent purchaser or consumer.

Mr. LONGWORTH. The courts have upheld the inheritance tax because it was not a property tax.

Mr. GARNER. Was not a property tax? I was just going to say I do not understand how you philosophize as to the direct-property tax.

Mr. MOSS. I believe the decision in that case applied on the theory that it was not all visible property; but decisions have been rendered in tax matters that will not stand the light of reason.

Mr. LONGWORTH. Not at all. They upheld it on the ground that it was not a property tax and the right of the Government to tax on the right to inherit specifically. That is the uniform decision of the courts.

Mr. GARNER. A tax on the right of the individual.

Mr. MOSS. That is an inheritance tax.

Mr. LONGWORTH. It is not a property tax, and it certainly can not be passed on.

Mr. GARNER. It can not be passed on.

Mr. MOSS. It can not be passed on. The property is taken—in a sense confiscated—and not sold.

Mr. LONGWORTH. You said that all taxes were passed on except direct taxes on property. This is not a direct tax on property.

Mr. MOSS. I say that a direct property tax is confiscation to that extent. The owner to the extent of the tax has been deprived of the property.

Mr. LONGWORTH. Do you include in that category the income tax?

Mr. MOSS. The income tax is a property tax.

Mr. GARNER. You are opposed to all taxes of that character?

Mr. MOSS. No, I am not. I am in favor of an income tax. I am in favor of an income tax on the theory that the strong should bear a large portion of the burden.

Mr. GARNER. But you are now advocating a tax that is a tax on consumption?

Mr. MOSS. Yes, sir.

Mr. GARNER. Is that upon the theory that we have no consumption taxes and you want to get additional consumption taxes, or is it upon the theory that you now want to shift certain taxes?

Mr. FREAR. Apart from this proposition, Mr. Chairman, I am interested in the question of what this committee is going to consider in reference to the consumption tax. The chairman of the committee, that is, the members of the committee, have arbitrarily stopped discussion of consumption taxes. I have had witnesses, the highest experts in the country, to oppose it. Now, if you are going to travel over the same ground with the consumption tax, I think it is a waste of time. I could produce gentlemen who would like to be heard in opposition.

The CHAIRMAN. I suggest that members of the committee allow a short statement without interruption. Make your statement to the committee, so that they will know what your position is, and then we will be glad to ask you questions.

Mr. MOSS. The prudent business man in establishing his selling price must of necessity take into account the cost of doing business, including the item of taxes. Under the present law the merchant may have reason to anticipate that after numerous investigations and interpretations extending over a period of several years, the final O. K. of the Government officials will be on the basis of a 5 per cent tax. However, in attempting to anticipate as to what the basis of final settlement will be he has no means of knowing but what he will be called upon to pay 10 per cent, as no one will contend that the present tax law can be construed with certainty—perhaps I should apologize for that statement as it is a conclusion—being as it is, subject to the arbitrary interpretation of the so-called expert, so that in anticipating the probable tax the maximum rate, to be safe, must be used, which might be 10 per cent, thus increasing the sales price 10 per cent.

The next merchant handling the same goods follows the same procedure, with the result that by the time the goods have passed through the hands of several merchants and manufacturers the sales price may have been increased from 5 per cent to 25 per cent, which is passed on to the consumer. It would be difficult to imagine a more vicious or unscientific system.

In 1919 and 1920 costs increased approximately 100 per cent; but the public continued to buy until unemployment of millions of workers curtailed the purchasing power. This unemployment was due very largely to the withdrawal of capital from industry, and its reinvestment in tax-free securities. This will continue until our present tax laws have been replaced with others based upon sound economic principles. But under no circumstances should a gross sales tax, without deductibles, be permitted for reasons fully set forth in the accompanying schedules.

It is impracticable to establish different tax rates to apply to certain classes of persons or dealers or corporations for the reason that the business of a person or corporation is not always confined to any one line of transactions; therefore, I suggest a division of all business into what might be called three natural groups, namely, tangible, intangible, and investments or income; and that any of the three classes of business transacted by any person, firm, or corporation, be subject to the same tax rate applied for that particular class of business transacted.

In lieu of the present method of Federal taxation, I propose the following, and would also suggest that if the plan as herein outlined is adopted as a basis for Federal taxation, the same principle, not necessarily the same rate, could be applied in the matter of State, county, and municipal taxation, thereby incurring uniformity as to method, equity to all, and a clear understanding on the part of the taxpayer.

From information at hand, I estimate that the rate of tax suggested, 1 per cent, applied as outlined, will yield an income of approximately \$2,000,000,000 per annum.

Mr. FREAR. This is a sales tax proposition that you are discussing. Where did you get these figures?

Mr. MOSS. This is matter that has been furnished me by a department.

Mr. FREAR. By what department?

Mr. MOSS. By the statistical department.

Mr. FREAR. At Washington?

Mr. MOSS. Yes, sir.

Mr. FREAR. Has it been furnished you by some of the people who have been discussing sales taxes, or is it just information that you have asked for?

Mr. MOSS. It is information that I have asked for. However, my purpose is to outline a scientific, equitable system, rather than to attempt to fix the rate that must be applied to yield the necessary revenue. The present national indebtedness is approximately \$25,000,000,000, or 10 per cent of the national wealth; and this indebtedness is in the nature of a lien against same. A tax should be paid as the property is sold, and to insure equity a like tax should be paid upon all new property.

To that end I suggest a general tax. A tax of 1 per cent shall be paid upon all tangible property now in existence and later created, such tax to be collected monthly, quarterly, or semi-annually as any such property is sold. A tax of 1 per cent shall be paid upon all intangible property hereafter created.

Tangible property, within the meaning, shall be all merchandise, wares, and products of the mine and soil, including real estate, buildings, etc.

Intangible property, within the meaning, shall be service rendered or values created and sold, not evidenced in tangible property, but represented or measured by the expenditure made in salaries, wages, commissions, or other remunerations. Every business operation and all service rendered is, or should be, a necessary part of our economic system, so that the banker, broker, railroad, street car, or jitney, and every other form of service are engaged in producing and selling intangibles as necessary in our economic system as are the

products of lumber and iron. The ore in the ground represents but an infinitesimal part of the ultimate value of the finished products and the difference between the cost of the ore and the finished product is increased value represented in labor and service; so that in distributing a tax equitably over all property and operations, avoiding pyramiding or duplication, and in the case of tangibles the tax must lie against the sales price after deducting the purchase price of all materials, raw or manufactured, all or in part, entering into and forming a part of the materials or wares or merchandise offered for sale upon which the tax has been paid. So that the materials, whether passing through the hands of several separate interests performing the various operations, or in the case of all operations conducted by one interest, would carry identically the same tax.

In arriving at the tax to be paid in the case of tangibles, all that would be necessary would be to ascertain as to the gross sales of such goods covering a given period, and the gross purchases covering the same period, of materials, raw or manufactured, entering into and forming a part of the goods offered for sale; and the difference between the gross sales and the gross deductibles will represent the amount upon which the tax would be paid. (See the schedules below.)

Note carefully this does not involve dealing with individual transactions. The merchandise sales account on the books would reflect the total sales, the merchandise purchased account would represent the total purchases, and all that would be necessary would be to deduct the purchases from the sales, and the tax would apply on the difference.

There will no doubt be further effort made to enact a gross-sales tax without deductibles. This must not be permitted, as it would result in the ultimate elimination of all except large interests who would be in position to conduct all operations from the raw material to the consumer, paying only 1 per cent upon the sales price to the consumer, while the same goods passing through the hands of several manufacturers, fabricators, and merchants, with a resale in each case, would carry a tax on the aggregate of all sales, resulting in a material advantage to the large interests.

No person or industry could truthfully claim that the plan as outlined herein would operate to the detriment of any particular class of business, because not only would all competitors in the same line of business be subject to the same tax, but all substitute competitors—that is to say, substitute materials—would carry approximately the same tax and be operating under the same conditions. This simple statement should forestall any request for, or consideration of, exceptions or special rulings.

Mr. GREEN. How did you say you would apply that in the case of a street railway?

Mr. MOSS. Based entirely upon the wages paid.

The CHAIRMAN. Suppose they did not make that profit in a year but ran behind and lost money.

Mr. MOSS. The price charged would be based with respect to the tax to be paid—that is to say, if the tax paid by a street railway company, based upon the pay roll, would be equivalent to an advance of 1 cent (to illustrate) per ticket, then 1 cent would be added to the fare to cover such tax. Under this plan the materials and supplies

used by such railway would be subject to a tax of 1 per cent at the time of purchase.

The CHAIRMAN. Pay whether they made money or not?

Mr. MOSS. Yes, sir; but, as stated, the tax would be added to the price charged for transportation, and would thus be passed on, and would have no bearing upon the profits or loss of the railroad, and would be a definite, almost invariable amount.

Mr. HOUGHTON. Out of what fund would they pay it?

Mr. MOSS. They would have collected the tax from the public and would probably pay the tax from their general fund; but that would be immaterial.

Mr. HOUGHTON. Suppose they had to borrow money to pay it, as many of them had to do this year?

Mr. MOSS. They would borrow it the same as the balance of us have to do to pay our taxes.

Mr. GREEN. Here is a street railway that does not pay operating expenses. How is it going to get the funds to pay any such taxes as you propose?

Mr. MOSS. They are already paying a tax, but as stated, this tax would be added to the price of the fares charged and would not work a hardship.

Mr. GREEN. Are they?

Mr. MOSS. The street car companies are paying a general tax, and the railroad companies are paying a tax which they collect from the public as a separate item——

Mr. GREEN. When it is just paying operating expenses, paying a tax of 10 per cent?

Mr. MOSS. The railroads of the United States pay 3 per cent upon freight bills, and I believe 8 per cent upon passenger traffic, which they collect from the public as a separate item.

Mr. GREEN. The shippers and the passengers pay that.

Mr. MOSS. That is true. It is ultimately paid by the consumer.

Mr. GREEN. No; they know how much this is to be, so that they can add it.

Mr. TILSON. The railroads you would charge according to the amount they pay out for wages?

Mr. MOSS. They would be taxed upon the wages paid.

Mr. TILSON. Where they are paying out something like 75 per cent for labor and not paying running expenses, would you charge them a tax on the full amount of their wage account?

Mr. MOSS. I have suggested a tax of 1 per cent, but as stated, my purpose is to present a plan rather than to determine as to the exact rate that must be applied in order to yield the necessary revenue.

Mr. GARNER. How much money would you get under this proposed tax?

Mr. MOSS. The 1 per cent tax suggested according to the statistics I have——

Mr. GARNER (interposing). What tax do you propose to levy?

Mr. MOSS. One per cent.

Mr. GARNER. How much tax would you get per annum?

Mr. MOSS. It would yield in excess of \$2,000,000,000.

Mr. GARNER. How would you collect the balance of the money to run the Government?

Mr. MOSS. As stated, my purpose is to present a plan or principle, and not to determine as to the rate. If, in order to yield the necessary revenue, 2 per cent is required, all right and good.

Mr. LONGWORTH. Is this a substitute for all taxes?

Mr. MOSS. Substitute for excess-profits taxes and surtaxes.

Mr. LONGWORTH. You still have a surtax?

Mr. MOSS. Yes; as set forth in my plan, there should be an income tax.

Mr. LONGWORTH. Just a normal tax without surtaxes?

Mr. MOSS. This would eliminate the excess-profit tax and the surtax.

Mr. LONGWORTH. You mean have a normal tax and everybody pay the same rate?

Mr. MOSS. Yes, sir; a very low tax distributed over all sales and transactions.

The CHAIRMAN. The United States Steel Co.'s pay roll last year was \$581,000,000.

Mr. MOSS. Yes, sir.

The CHAIRMAN. Ten per cent corporation tax on that would be \$58,100,000, and under your plan it would be \$5,810,000?

Mr. MOSS. Upon the steel corporation?

The CHAIRMAN. It would reduce it to one-tenth of what they paid on their normal income after deducting excess profits.

Mr. LONGWORTH. Ten per cent on their net profits; it is not on the gross.

The CHAIRMAN. They would pay under your plan less than \$6,000,000 revenue, and they paid many times that last year.

Mr. MOSS. But on the other hand, Mr. Chairman, this tax would cover intangibles as well as tangibles, and as stated, the purpose is to apply a simple method of taxation covering all operations and sales in the manner outlined, the rate to be applied according to the necessity. Furthermore—and note this carefully—the taxes realized from the steel corporation last year were paid from the profits, as in the case of other corporations. Had there been no profits the Government would have realized no revenue from that source. And that is exactly what will take place in the case of a very large number of corporations this year; hence the necessity of a more dependable source of revenue, which can only be had by basing the tax upon the turnover, which tax must of necessity be passed on to the consumer.

Mr. FREAR. Taxed whether they had the money or not?

Mr. MOSS. Yes, sir. I say if there is a small definite tax, such tax will be added to the selling price as a part of the cost of doing business. You will have this year ample proof that sufficient revenue can not be realized by taxing profits. In the prosperous year of 1920 such tax yielded less than 10 per cent of the requirements, which will be far greater than that which will be realized from the same tax this year; so that it must of necessity be a general distribution of taxes from a more dependable source.

Mr. FREAR. But on a falling market, how are you going to charge it on the goods? You are taking less than you expected originally and then pay this tax on your wages.

Mr. MOSS. As stated, the tax will be added as a part of the cost of doing business, and will have no bearing upon the profit or loss.

Mr. FREAR. Not under your method of taxation.

Mr. MOSS. Under my method of taxation, as in all properly conducted businesses, all expenses such as taxes on sales are taken into account.

The CHAIRMAN. If there were two firms, with a pay roll of \$100,000 a year each, and one firm makes money and the other firm loses money, your plan would make them pay the same amount of tax?

Mr. MOSS. Yes, sir. Any tax that penalizes good management and thrift, at the same time relieving bad management and extravagance of all such burden, is unfair and will fail. Furthermore, as stated, a tax on profits alone will not yield the necessary revenue.

As stated, intangibles are a part of our economic system, and represent values just as definite as tangibles, and should carry the same burden. But inasmuch as this class of business does not involve the sale of basic materials upon which a tax has been paid, there are no deductions, and it is impractical to base the tax upon the volume of sales which, in the case of brokers, bankers, commission men, etc., would represent a very heavy volume in sales, with but small margins; so that the value rendered in the case of such business is truly reflected in the pay roll or remuneration, and for every dollar paid by any firm, corporation, or person, a tax of 1 per cent would be paid. This includes domestic servants, so that in the case of intangibles, the employer is subject to a tax of 1 per cent upon all wages or remuneration paid. Thus, we have the uniform tax of 1 per cent in the case of tangibles, after allowing deductibles upon which the taxes have been paid, and a like tax of 1 per cent upon intangibles represented in wages and remuneration, upon which no tax has been paid.

As to exemptions or exceptions, there should be none, absolutely none, except in the case of charity or petty transactions upon which the cost of collecting the tax would be excessive. Any attempt by arbitraries or exceptions will lead to confusion and injustices. A tax is not fundamentally sound where exceptions are made as to the principle. Every citizen worth the name should be willing to pay a small Federal tax, and the distribution of the tax in the manner suggested should not be considered a burden, and any measure having for its purpose a greater portion of the burden upon the rich, should be embodied in an income tax; but, as stated, the general tax based upon an equitable basis should be universal and stabilized as to principle, the rate being varied from time to time only as to requirements.

An income tax (graduated or flat) should be provided to cover income for investments, and while an income tax is unscientific, being based wholly upon arbitraries, I favor such a tax upon the theory that the strong should bear a tax in keeping with their income. This tax should include incomes; also for professional and personal services. I would suggest that this tax should be established with due regard to the effect it would have in driving capital from industry and other normal investment to tax-free investments. Incomes of corporations from investments as such, should be subject to the same tax as if owned by private investors. There should be no incentive to incorporate or not to incorporate for the purpose of evading taxes.

Volumes could be written in justifiable condemnation of our present absurd, inequitable, and expensive tax system. At the present time millions of our taxpayers are in doubt as to whether they have underpaid or overpaid their taxes. The department at Wash-

ington, with its army of investigators, together with the expense and time of the taxpayers, and other tax experts in an effort to ascertain as to the probable tax, represents an expenditure of hundreds of millions of dollars to the taxpayers. This expense is probably exceeded by the hampering of business growing out of the uncertainty. A simple scientific tax plan would go far to depopulate Washington, but there is plenty of room elsewhere.

The present system is one of taxing the findables and the man who is disposed to make honest returns, while a large per cent of the wealth, together with the tax dodger, escapes scot free. A tax on consumption is the tax that corresponds truly with ability and duty to pay. A tax upon consumption might be likened to the water meter, by which one is at least supposed to pay for what he uses.

Under the plan suggested, except in the case of incomes in excess of exemptions, the tax would be paid by the employer, thereby rendering it unnecessary for reports to be filed by persons except those who would be subject to a tax on incomes. For example: A corporation employing two or three hundred thousand workers, such as a railroad, the tax would be based on the payroll. Some have suggested that the tax be raised by levying a higher tax upon wholesalers and manufacturers. Either plan is utterly impracticable. There is no line of demarcation as between wholesaler and retailer; that is to say, there are tens of thousands who are engaged more or less in marketing, where there might be a question as to whether it could be considered wholesale or retail, or the possibility of a division. A retail or stamp tax is little short of criminal.

I believe it is generally agreed that the excess profit and surtax, while serving its purpose during the emergency of war, has proven, and will continue to prove, a failure during peace times because it is unscientific and so involved as to require an expert to interpret, and is fundamentally unsound and is no doubt largely accountable for the pyramiding of prices, thereby working a hardship upon the masses, as well as business, and should be abandoned.

A sales or turnover tax applied to all sales, as generally understood, at first glance would appear to be the ideal on account of its simplicity, but in its operation would work a great hardship upon the small manufacturer and merchant and fabricator and would operate greatly to the advantage of the large manufacturers in that the large manufacturers in many cases carrying the material through the various operations from the raw material to the finished product and to the consumer, and in some cases even including their transportation companies, would pay but one tax, while in the case of the smaller operators forming the connecting link from the raw product to the ultimate consumer, the materials would pass through the hands of the smaller fabricators and dealers, resulting in a tax being applied in turn by each one, including the transportation companies, and would carry an accumulated tax burden so that the difference between the tax paid by the large and the small operator would represent as much as the total profit made on some lines, and would eventually eliminate the small operator and merchant, and therefore should not be considered.

A tax, to be scientific and equitable, must of necessity be classified as to the character of the transaction rather than by designated in-

dustries or operations; that is to say, if a real estate dealer is taxed 1 per cent upon his sales of real estate, then the same tax should be paid on any real estate sold by others, whether real estate dealers or not. If investors in stocks and bonds as a business are taxed on their income, then those who might only incidentally have similar investments should pay the same tax upon that part of their income.

You will note it is my idea to base the tax upon the total sales less deductibles; deductibles in the case of merchants and manufacturers being the purchase price of all materials, raw or manufactured, all or in part, used in the production, comprising a part of the merchandise or produce offered for sale; that is to say, if the total sales amount to \$1,000,000 during a given period, and the total cost of all materials purchased, whether raw, manufactured, or in various stages of manufacture, amount to \$600,000 during the same period, then the tax should be computed upon the sum of \$400,000. Thus the tax would be collected only upon that part of the total cost of the product supplied by the seller and his profit in each case.

The amount paid for materials is deducted upon the theory that under this plan a tax would have been paid by those from whom the materials in their various stages of manufacture were purchased; and under this plan the finished product would carry the same burden regardless of whether the finished goods represented the product of one concern or a dozen concerns, thus avoiding the pyramiding or working a hardship on the small manufacturer or merchant. This method is one of the basic principles of scientific cost accounting, by allocating the burden step by step as it occurs in the various operations.

It will be noted that in effect this plan would result in a tax of 1 per cent on the sales price to the present holdings of all basic materials as sold; also a tax of 1 per cent to the increased value or sales price, such value being represented in the difference between the cost and the sales price.

It might be argued that under this plan as set forth, the manufacturer would pay a heavier tax than in the case of the merchant for the reason that the deductibles in the case of the merchant would be larger than in the case of the manufacturer. This, however, can not be legitimately urged as an objection for the reason that the goods offered for sale by the merchant would already have been charged with its tax burden in the various processes of manufacture before reaching the merchant.

It has been suggested that an industry owning its own timber or mines and embracing within its own operations all of the various processes of manufacture from the raw material to the consumer, thus having no deductibles by reason of having to make no purchases, would pay a tax upon their total sales, while a competitive manufacturer, buying his materials, raw or manufactured, all or in part, would pay taxes only upon that portion of his sales in excess of his purchases, which is true, and is as it should be, because in the case of the industry owning its own mines and timber, and fabricating its materials and selling to the consumer, no tax would have been paid upon any raw material or operation until the time of the delivery to the ultimate consumer, at which time the total tax would be paid; while in the case of the manufacturer purchasing his materials, raw or in process of manufacture, the tax would have been added in each

operation to the sales price in the exact proportion that the process of manufacture has progressed at the time the materials or parts are sold; so that each pays only that part of the tax applicable to his part of the operation. As a matter of fact, in most basic industries, where they own their own mines or timber, they are constantly adding additional purchases of timber or mines, which of course would be deductibles.

Under this plan there would be no possibility of evasion; it would be definite, and the manufacturer and merchant would be in position to determine as to the exact amount of tax to be taken into account as an item of expense.

It might be urged under this plan that the farmer would pay more than his proportion of the tax on account of having no deductibles. However, when it is taken into account that the farmer consumes a considerable portion of his produce, and, generally speaking, his product is turned but once a year, while in the case of the merchant or manufacturer he must necessarily figure on a turnover of from four to ten times per year, it would seem that it must appeal to the agriculturist as well as to the manufacturer and merchant as being scientific and equitable.

I would particularly call your attention to another very strong point in favor of this method of taxation, and that is in the last analysis the raw material in all cases would carry the uniform tax established, whether passing through the hands of any one concern or a dozen; and any additional tax over and above the rate established or applied to the raw material would be due to, and based on the operating expense and profit of the various concerns and persons in the process of manufacturing or merchandising, thereby providing an incentive for economy in operations and conservatism in profits. It would tend to stabilize values, and being basically sound would avoid the necessity of exceptions and special classes or rulings to overcome inconsistencies brought about by an unscientific tax law.

In this, as in all other things that are basically sound, it is interesting to note the absolute accuracy with which it works out. To illustrate: One party suggested that to his mind it was the most scientific and ideal plan, his only objection being that there might be a disposition on the part of some to increase their purchases at the end of the year, with a view of having larger deductibles, reducing the amount upon which the tax would be based proportionately. I pointed out to him the impossibility of the evasion of the tax by such methods for two reasons, (1) the carrying cost, investment, etc., of an excessive stock would more than equal any saving effected in taxes; (2) if it were possible to evade the law in that manner, for every credit there is a debit, and the party seeking to increase his deductibles by such purchases would soon realize that the parties from whom the goods were purchased would be confronted with increased sales in like amount, thereby increasing their taxes; so that it would be discounted and would result in working a hardship on anyone seeking to evade the spirit of the law.

Tax legislation in the near future will develop various plans which will be offered apparently favoring certain classes. For instance: It may be suggested that farmers be exempt from a tax on sales, at the same time urging that the tax upon manufacturers and merchants be increased. If the tax is reduced in one place, it must be increased

at some other point, and if the farmer is exempt from tax burden upon his sales then he must of necessity share a higher tax upon his purchases of manufactured goods, and the result is just the same.

On the other hand, the business man will be baited with the suggestion that a tax upon land will lighten his burdens, etc. It will require courage for our legislators to ignore such political juggling, but there are those who will contend for a tax law such as suggested, knowing it to be just, and that it will effect a saving of hundreds of millions of dollars to the taxpayers. And our Representatives, contending for what they know to be right, should have our earnest support.

The following is a table showing amount of tax and method of applying same to the various transactions and operations under the Moss plan as to tangible, using as a basis Oregon fir lumber, delivered on a Kansas City freight rate.

This method has the simplicity of the gross-sales tax, but eliminates completely its objectionable features by deducting the purchase price of all materials, raw or manufactured, entering into and forming a part of the goods offered for sale upon the theory that the tax has been paid by the seller, and in arriving at the tax to be paid it is necessary only to ascertain the total sales, from which is deducted the total purchases of materials, and the tax is applied upon the balance in the following manner:

	Column 1.	Column 2.	Column 3.	Column 4.	Column 5.	Column 6.
Example.	Timber-holdings company to logger.	Logger to sawmill.	Sawmill to wholesaler.	Wholesaler to retailer.	Actual freight charged by railroad, present rate.	Retailer to consumer.
1,000,000 feet standing timber; stumpage:						
Price realized when sold.....	\$3,000.00	\$9,000.00	\$16,000.00	\$16,800.00	\$19,950.00	\$47,535.00
Deductibles.....		3,000.00	9,000.00	16,000.00	(1)	36,750.00
Amount on which tax paid.....	3,000.00	6,000.00	7,000.00	800.00		10,785.00
Amount tax paid on each operation.....	30.00	60.00	70.00	8.00		107.85

¹ The tax paid on the freight would come under the head of "Intangible," and would be included in the railroad pay roll upon which a tax of 1 per cent would be paid.

Figures used covering the various operations, and the tax rate suggested, are for the purpose only of illustrating method of applying the tax.

Total tax paid on 1,000,000 feet of lumber covering all operations, \$275.85, or \$0.275 per thousand.

The above shows the distribution of tax where the timber holdings and all of the different operations represent separate and distinct interests. In the case of a single corporation or interest owning the timber and performing the various operations (including transportation) from the tree to the consumer, would have no deductibles and would pay a tax of 1 per cent on \$47,535, being the total sales price to the consumer, and equaling \$0.275 per thousand, plus the tax paid by the railroad, which is 1 per cent on the pay roll.

Note carefully: By referring to column 3, it will be noted that in this case the saw mill operator would realize \$16,000 for the 1,000,000 feet of lumber sold to the wholesale lumber dealer, to which must be added the freight paid by the retail dealer, amounting to \$19,950, making the total cost to the retail lumber dealer \$36,750, which cost price is deducted from the sales price of \$47,535, leaving to cover operating expense and profit, \$10,785, upon which the tax of 1 per cent, or \$107.85, is paid by the retailer.

Now, then, assuming in place of using cheap fir lumber, as in this case, costing the consumer \$46.23 per thousand, mahogany, or some other choice lumber had been used, costing 5 or 10 times as much, then the tax paid by the retailer upon the choicer grade of lumber would be 5 to 10 times as much, or assuming that the fir lumber had been sold to a manufacturer of millwork to be made into some simple pattern of trim, the tax paid would be possibly 20 cents per thousand. If, on the other hand, the same lumber were made into some expensive or elaborate design the tax would be from 10 to 20 times in excess of the tax paid upon the more simple design. And this is not an extreme or exaggerated case.

Precisely the same condition would obtain in the matter of other products made from metals, leather, wool, cotton, etc.; thus the burden would automatically increase on the luxuries, and be borne by those best able to pay. The consumer is interested only in his ultimate cost, and with the wide distribution of taxes covering all properties and operations the rate of tax would be very low in order to yield the necessary revenue; while under this plan the tax is passed to on the consumer. In reality it is a tax upon profits and cost of doing business, thus encouraging economy and moderate profits.

By referring to column 6 it will be noted that the retailer upon sales amounting to \$47,535 would pay a tax of \$107.85.

Column 5 shows the amount of freight collected by the railroad, and, as noted, would be subject to a tax of 1 per cent upon the pay roll.

Column 3, a tax of \$70 paid by the sawmill operator upon sales amounting to \$16,000.

Column 2, logging operations amounting to \$9,000, a tax of \$60 would be paid.

Column 1, the Timber Holdings Co. upon sales amounting to \$3,000 would pay a tax of \$30, there being no deductibles in the case of the Timber Holdings Co.; that is to say, the timber not having been previously taxed, would pay a tax upon the total sales price. If, however, the Timber Holdings Co. purchased any new properties, such purchases would of course be considered as deductibles for the reason that a tax would be paid by the parties selling the timber to the Timber Holdings Co.

In the case of merchants, from the corner grocery to the Steel Corporation, all that would be necessary to ascertain as to the amount of tax would be to deduct their merchandise purchased from merchandise sales, and the tax would apply on the balance.

The same proposition under a gross-sales tax (with no deductibles) would work out as follows:

Timber owner to logger (sales price).....	\$3, 000
Logger to sawmill (sales price).....	9, 000
Sawmill to wholesaler (sales price).....	16, 000
Wholesaler to retailer, which price would be based upon cost, \$16,000, plus 5 per cent profit, \$800, plus freight, \$19,950, making a sales price to retailer of.....	36, 750
Retailer to consumer (sales price).....	47, 535
Total of all gross sales.....	112, 285

Tax, \$1,122.85, or a difference of \$847.50, which would represent the exact advantage that the large interests conducting all operations

from the tree to the consumer, would have as against the various operations being conducted by separate interests.

It is inconceivable that anyone would knowingly lend their support to a tax measure that would work such a great hardship upon the great majority of the manufacturers and merchants of the country. It must not be permitted.

It will be noted under this plan, in the tangible class, only the merchandise and materials purchased and resold are taxed, and then only in the amount that each operation has added to the value. Now, in the case of intangibles, where no materials are purchased and resold, that which is sold being service, the tax lies against that which has not been taxed, namely, service represented by salaries or remuneration for labor; so that a tax of 1 per cent is paid by every person, firm, or corporation upon all wages or remuneration, except as provided in the case of those engaged in the production of tangibles, where the tax is determined by deducting the purchase price from the sales price.

CONTRIBUTIONS TO SOCIETIES AND INSTITUTIONS.

SAMUEL McCUNE LINDSAY.

Mr. LINDSAY. I want to ask just a moment's consideration of section 214a, subdivision 11. That is to provide for the exemption of contributions made or gifts made within the taxable year to corporations organized and operated exclusively for religious, charitable, scientific, and educational purposes. The nature of that exemption or deduction is somewhat different from the language in the section that has to do with the estate tax, and the interpretation under the Treasury rulings of the exemptions allowed on the income tax has been somewhat narrower than was anticipated. I submit, Mr. Chairman, that the small voluntary committee of college presidents, leaders of educational institutions, and charitable institutions and pacific bodies were organized during the war to carry on that work, and you should enable those associations that live from voluntary contributions to get the means to carry on the educational, charitable and religious work which they were doing in order that the burdens of the work might not fall upon the Government.

This section has been working very well. It has given great encouragement to the support of education and charitable organizations. Some organizations have been ruled out from the benefits of this section over the interpretation of the Treasury Department upon the meaning of this language.

Mr. FREAR. What are they?

Mr. LINDSAY. Educational institutions. A great many organizations are on the border line. The intent of this provision is clear enough in general principles. It was to provide an exemption for these organizations—as the language of the act says, “associations no part of the net earnings of which inures to the benefit of any private stockholder or individual.”

There are organizations that are organized for selfish purposes; still they are not organizations that do not pay any dividends or that the benefits do inure to the members of those associations. There is no reason why they should be exempted. There are other organiza-

tions that do not come technically under the definition, apparently, of educational associations, where that is not the case. I will take one illustration. For instance, there is an organization of which I happen to be an officer, the National Child Labor Committee, and organization to promote uniform regulations on the matter of child labor and the protection of working children and to secure the best educational advantages for such children. That organization has a large membership. It is dependent for its work upon the contributions, voluntary contributions, of its members and of its friends. It was ruled out first and then on an appeal the Treasury Department allowed contributions to that association to be deductible on the theory that it came under the provisions of the law, which says, "for the prevention of cruelty to children or animals." That provision is put in there to reach a particular class of organizations. Another organization that has been in existence 20 years in this country is the American Association for Labor Legislation, which is a branch of the International Association. It has held congresses nationally and internationally for years for the consideration of labor protective legislation all over the world. Its purpose is scientific and educational. It does not represent any class interest and has nothing to do with labor unions, either pro or con. It is an organization for the purpose of conference and discussion to bring about certain uniformity of labor legislation in this country, very important, because of the great variety of labor legislation in our various States. That is an association for public purposes. It does not spend a great deal of money and does not need a great deal of money.

Mr. GARNER. Is it to propagate an economy or more to perform works of charity?

Mr. LINDSAY. No; it is to promote the welfare of the whole industrial population.

Mr. GARNER. That is according to the viewpoint of the man that is issuing the propaganda. You know some may have a different viewpoint. The object of Congress here was simply to exempt those things that are engaged in educational or charitable purpose. I think your quarrel, if it is anywhere, is with the administration of the law and not the law itself. Is not that true?

Mr. LINDSAY. Very largely. But the question I raise, and I raised it after frequent consultation with the officials of the Treasury Department, is that under the existing wording of the law the administration is difficult. I think the officials of the Treasury Department will bear me out in that, that it is very desirable to have this committee, to have Congress decide the question of policy and not leave it to be decided inferentially by administrative rulings of the Treasury Department. All I ask for here is to consider first making the language of this section 214-a, subdivision 11, similar to the language of the section on the estate tax, which is 403-a, subdivision 3. That would give a certain measure of relief. But I think perhaps a little further step is necessary to give the full relief we have asked for. That is to introduce some other phrase in this language in addition to the provision of excluding religious, charitable, scientific, or educational purposes, that will bring in certain organizations that have a public purpose but will not make it too broad to include organizations that are purely partisan or propagandists in an objectionable sense.

Mr. FREAR. Does it not resolve itself back into that question of administration—that is, interpretation? Very largely so unless you specify, and as soon as you do that you enlarge the scope and it becomes a very hard matter.

Mr. LINDSAY. I only offer this as a suggestion for the members to consider. I think, perhaps, if you added on a phrase where it says, "No part of the net earnings of which inures to the benefit of any private individual," if you added there, "no part of the net earnings or benefits," that you might then permit the interpretation of the words education and scientific to be broad enough to cover all of the relief that you think is desirable.

There is one other question, Mr. Chairman, and that is with respect to the limitation placed upon these deductions. This section 214-a, subdivision 11, limits the deductions allowable here to 15 per cent of the tax on the net income in making this deduction. That limitation, of course, was placed on this provision at the time that it was necessary to get every dollar of money for the Government that we could get for war purposes. I realize that your problem is almost equally difficult now; that you must get all the revenue possible to meet the expenses of the Government for some time to come. At the same time the educational and charitable institutions, particularly, have been under the necessity of raising large sums of money to meet the great needs of that work all over the country. You are familiar with the college endowments, the movements to increase those endowments, the efforts made to provide for their support by certain well established charitable agencies. It is very difficult to get contributions now; just as difficult as in the early years of the war; in some respects more so during the last year. Many of these organizations have the greatest difficulty in raising their minimum budget requirements from voluntary contributions. In other words, they had to appeal to the large coffers, to the people of large means, and some of them are now giving away for public purposes, charitable, educational, and religious purposes, a great deal more than 15 per cent of their income.

If you could see your way clear to increasing that amount allowable as a deduction to 25 per cent, the control of the Treasury would be maintained the same as it is now, and we think the loss of revenue to the Government would be comparatively slight in proportion to the stimulus and benefit that you would give to institutions that are engaged in practically a public work and are carrying on burdens that otherwise would become Government burdens.

CORPORATIONS TAX.

JAMES E. EMERY, OF WASHINGTON, D. C., REPRESENTING THE NATIONAL MANUFACTURERS ASSOCIATION:

The CHAIRMAN. Give your full name and the business you represent.

Mr. EMERY. James E. Emery, Washington, D. C. I represent the National Association of Manufacturers of the United States and some 31 State organizations of manufacturers in various parts of the United States, numbering in all twenty or twenty-five thousand manufacturers engaged in all forms of industrial production in practically all of the States in the Union.

They are not a unit on all tax matters, and I am not undertaking to cover the field of taxation, which undoubtedly has been crossed and crisscrossed many times during your hearings and during the many addresses you have heard.

I shall, therefore, confine myself this morning within the limits of the prohibition, rather, your committee adopted at the opening of these hearings.

In the first place, the general productive industry of the country under the present tax law have to face certain administrative features which are objectionable and to which we desire to call your attention.

We realize that your committee is facing a task of a vast magnitude, with great complexities, and under the most difficult economical situation to which a committee of Congress ever addressed itself.

We realize, too, that while we are somewhat nearer peace and while peace is approaching, we are still living under the shadow of war, and we are still in somewhat the condition that our colored brother explained when a colored soldier complained to him that he had enlisted for the duration of the war, and thought that he ought to be released, and the colored brother reminded him that the war was over, but that the duration was still with us.

I beg to call to your attention first of all, Mr. Chairman, to the fact there is unquestionably an erroneous impression among many who have addressed you on the subject of taxation with regard to the capital and the organization of industrial products in the United States.

There is a common impression that the American manufacturer is usually represented by a large corporation, employing vast numbers of men, and possessing exceptionally large assets. I want to overcome that prejudice by calling your attention to the fact that while we are living in an industrial age and the method of American industrial production as a source of wealth makes us an extraordinary people indeed, the figures of the manufacturing census of 1919 show that the gross value of the American manufactures for that year was substantially some \$62,000,000,000, the net is quite a different question.

But, Mr. Chairman, the manufacturing industry of the United States, as these figures will show, which are not yet ready to report is represented by some 287,000 establishments.

Mr. GARNER. Can you give us the net of that manufacturing? You stated that the gross was some \$62,000,000,000. Can you give us the net?

Mr. EMERY. The net on all classes of manufacturing will show between \$4,000,000,000 and \$5,000,000,000.

Then, there are about 287,000 manufacturing establishments in the United States, employing five or more persons in the actual transformation of raw material into manufactured products. The average number employed per establishment is between 25 and 26.

In the aggregate, the small manufacturer is the large manufacturer, viewed from the standpoint of value, and by the manufacture of raw material, the employment of men, and the sales had.

The great body of value added by manufacture, and the great number of people employed by American manufacturers is repre-

sented in the establishments employing, substantially speaking, around 250 men.

There is only one-third of 1 per cent of the manufacturers in the United States who employ a thousand men or more. Therefore, the manufacturing establishments in the United States on the lower scale represents transition work by individuals in the field of production, the man slowly making his way out of the shops, or the houses, house crafts, into the field where the employment of power as an auxiliary permits him to come in an ever increasing scale into the field of industrial production.

Mr. FREAR. Do you claim that all of these men compete, that they are competing with those who employ 2,000 employees?

Mr. EMERY. There is no question about it.

Mr. FREAR. They are competing in business?

Mr. EMERY. Oh, indeed they are. The manufacturing industry of the United States that represents substantially between 200 and 250 men represents a larger proportion of manufactured articles and the most variety in the United States. Indeed, they represent the finer forms, if you please, of the manufacturing industry, of highly developed specialties of the past quarter of a century.

Mr. YOUNG. What is the average number of employees in the manufacturing establishments?

Mr. EMERY. The figures of the 1914 manufacturing census, the last figures that we have that are complete, show that there are 25, and it is estimated that the census of 1919, from the indication and the information at hand, will show somewhere around 26 and not to exceed 27.

Mr. YOUNG. That includes all of the large establishments?

Mr. EMERY. Yes, sir.

Mr. YOUNG. And how about the small establishments, employing a small number of men?

Mr. EMERY. The unit is an establishment that employs five or more men in the act of transformation.

Mr. FREAR. They simply divide the number of men by the number of factories?

Mr. EMERY. As the manufacturing census estimates, and I say that the figures will show, that in the field of the manufacturing establishments employing 250 employees per establishment lies the largest volume of manufactured products, the largest value added to raw material by manufacture, and the largest field of employees in industrial production.

Mr. GARNER. Mr. Emery, I do not want to interrupt your line of thought, but I know that you have been before this committee before.

Mr. EMERY. Yes, sir.

Mr. GARNER. And you represent these people, as I understand, at the Capitol.

Mr. EMERY. Yes, sir.

Mr. GARNER. Now, what taxes, as they exist to-day, would your association have us repeal?

Mr. EMERY. Why, the National Association of Manufacturers has expressed itself quite fully on that. They believe that the excess profit tax should be repealed, that the higher brackets of the surtax should be reduced, and that the war excise taxes as such should be

repealed. They do not propose or suggest that there should be no excise taxes, but it is simply their idea that those which are levied under war conditions should be repealed, and that excise taxes should be substituted in the light of production in peace times.

And let me say, Mr. Chairman, that we have consulted the public and we do undertake to be tested by the standard of the public interest, and I want to call to your attention, if I may, in that connection that the condition of manufacturing itself as a business operation is far different than from other business, for instance, such as banking operations.

The surplus of a bank is in liquid assets that are readily translated into negotiable securities, or cash. The asset of a manufacturing concern, as expressed by them, does not represent cash as with the bank. On the contrary, it may represent uncollected debts, accounts due, raw materials, products in the process of manufacture, machinery, increases in buildings, and all of those items. Then, there is the item of the equipment of an industrial production. That is an important item. Those things, therefore, are in the shape of a surplus, but often it is very difficult to determine the amount of the surplus, or its cash value.

Mr. GARNER. What I want to do, what I want you to do, if you can, is to give us something concrete, and I know that you can. I want you to give us your exact position, the exact position of your organization with reference to the present tax laws; what should be repealed; what should be rectified, and how they should be shifted and transferred, etc. First, you want the excess-profits tax repealed?

Mr. EMERY. Yes, sir.

Mr. GARNER. Second, you want the higher brackets repealed—that is a rather indefinite term. Would you mind saying just how far you would go on those brackets?

Mr. EMERY. I should say about 35 per cent.

Mr. GARNER. About 35 per cent.

Mr. EMERY. And I will be glad, Mr. Garner, if you will permit me to give my reasons.

Mr. GARNER. I will hear your reasons, but what I want to get first is just what you want to do. That is a very interesting thing. I might have one reason for wanting to do the same thing and you would have another reason.

Mr. EMERY. Yes, sir.

Mr. GARNER. Then you desire to repeal the war taxes as on——

Mr. EMERY. The war excess taxes.

Mr. GARNER. The war excise taxes repealed as such taxes?

Mr. EMERY. That is, those that are distinctly war taxes on which——

Mr. GARNER (interposing). Now, would you mind enumerating just what you mean by war excise taxes?

Mr. EMERY. I would rather give a list.

Mr. GARNER. Will you put a list in the record?

Mr. EMERY. Yes, sir.

Mr. GARNER. And show all of the other taxes as contained in the act of 1918, or in other acts and statutes, as I understand, that you want to have repealed. You must be able to give us a list of them.

Can you not start right at the top and give us that list? You think they ought to be reduced.

Mr. EMERY. Some things we think ought to be increased.

Mr. GARNER. Now, that is what I want you to do as a representative of this association, representing them as you do. I think the committee is entitled to know just what those other things are that you want repealed, what taxes you want repealed, and what taxes you want retained or increased, and so forth, so that we may have a clear statement of your views touching the present tax laws.

Mr. COLLIER. And any new taxes.

Mr. GARNER. Yes, sir; any new taxes then that you desire, or any new tax laws that you desire enacted.

Mr. EMERY. Your committee somewhat restricted the discussion on new taxes.

Mr. GARNER. No; they have not, Mr. Emery. I must differ with you there. There has been no restriction as to the discussion. The committee did not decide it. The chairman decided it, but some members of the committee threatened to appeal from his decision and then he said that he would be willing to do whatever the committee wanted to do, which is a very natural thing to do.

You are talking about the sales tax, of course. That is what you are talking about.

Mr. EMERY. Yes, sir.

Mr. GARNER. And the Democrats have never had anything at all to say about it one way or the other, and they are still a part of this committee and so far as queries are concerned we have that liberty yet, to at least ask questions, and that is the reason I am interrupting you now.

Mr. EMERY. Yes, sir.

Mr. GARNER. And you are before the committee representing one of the great business associations in America as to the present tax laws. What I want you to tell us is what should be repealed and what should be retained and what new tax, if any, should be put upon the statute books. In other words, we would like to know your peace-time program for taxation, the views of your association.

The CHAIRMAN. Mr. Emery, permit me to add that the gentleman from Texas is not authorized to speak for the chairman. He has attempted to do so several times during the hearing.

Mr. GARNER. I am not speaking for the chairman this morning. I have not said anything for the chairman.

Mr. TILSON. Mr. Chairman, it is very delightful to hear you and the gentleman from Texas talk in the cloakroom, but the rest of the committee would like to hear this witness.

The CHAIRMAN. I do not think that the chair has occupied any more time than the gentleman from Connecticut along those lines.

Mr. HAWLEY. You spoke about repealing the excess-profits tax. Do you favor the modification of the normal corporation tax?

Mr. EMERY. Industrial corporations—

Mr. HAWLEY. Do you believe they ought to be reduced, retained, or increased?

Mr. EMERY. So far as the National Association of Manufacturers is concerned, it has expressed itself as believing that the present normal tax on corporations' net income represents, in its judgment, the best method of revenue producing from that standpoint without

injustice to the requirements of new capital for development, and especially capital for carrying corporations through the present period.

Mr. HAWLEY. So you would leave it as it is?

Mr. EMERY. As I say, that is the position of the National Association. I can not speak for the State associations on those questions. Some of them differ on that. They have different views.

Mr. GARNER. Mr. Emery—if Mr. Hawley will permit, I want to ask Mr. Emery if he expects to put in the record answers to the questions I propounded?

Mr. EMERY. Yes, sir; I shall be very glad to do that.

Mr. GARNER. I will be obliged to you if you will do that.

Mr. EMERY. I will do that as best I can. I will be glad to give you that information.

Mr. HAWLEY. In connection with these revenues, your proposition is to eliminate them and put them on a peace-time basis?

Mr. EMERY. On a peace basis. We want to eliminate the war excise taxes and put them on a peace basis.

Mr. OLDFIELD. Mr. Emery, may I ask you a question? You said a while ago, in reply to a question which Mr. Garner asked you, that you were in favor of reducing the surtaxes down to the 35 or 40 per cent bracket?

Mr. EMERY. That is a matter, as you understand, upon which opinions necessarily differ, or viewpoints differ, but we believe that that is a point at which the Government will get the greatest amount of revenue, and above that is the point at which the tendency is to drive capital, or certainly drive free capital, into tax-exempt securities. We believe that above that is the point at which that will become effective.

Mr. OLDFIELD. Now, another question: If you make that 35 per cent, that would begin at \$72,000 and not to exceed \$74,000. I want to know if you can put in the record just how much revenue the Government will lose in each of those other brackets, going on down to 65?

Mr. EMERY. Yes, sir.

Mr. OLDFIELD. Can you put that in the record?

Mr. EMERY. Yes, sir.

Mr. OLDFIELD. Also show how much the Government will lose by the repeal of the excess-profits tax.

Mr. EMERY. Well, as to the repeal of the excess-profits tax, that, of course, is a matter of record to-day. I think that the amount of excess-profits tax that was raised last year, the amount of money that was raised by the excess-profits tax, amounted to between \$400,000,000 and \$450,000,000.

Mr. OLDFIELD. That is what we get in the newspapers.

Mr. EMERY. I am talking about the Treasury experts, as near as I have been able to get the information from them.

Mr. OLDFIELD. They have not been here yet. We will, of course, ask them that question.

Mr. FREAR. Of course, that measure would not apply because the bill we are considering here to-day is to cover a number of years in the future, and if you take last year you should take the year before, during which time it reached over \$1,000,000,000, and consequently it would average more than \$400,000,000.

Mr. EMERY. Yes; but the gentleman asks about the loss of revenue from excess profits, and I presume that he refers to the taxes for this particular period.

Mr. FREAR. Well, if you take two years you would get over \$1,000,000,000.

Mr. EMERY. Yes; by taking the last two years we would get an abnormal one and a subnormal one.

Mr. FREAR. Exactly.

Mr. EMERY. Yes, sir.

The CHAIRMAN. Now, gentlemen, will you let the witness please present his case, so that we can get a statement from him. We have been occupying all of his time.

Mr. EMERY. I want to take as little time as possible to present these conditions, the condition of the manufacturing industry under the present law.

In taking the taxes of the present time, which are at the present time assessed and I am not saying this complainingly you understand, but I am undertaking to state it as a fact.

Let me first call to your attention—and, I am, of course, now referring to it in terms of the larger corporate terms—first of all most of the manufacturing business is done by the corporate form, about 85 per cent of the value added by manufacture is value added through the productions of corporations which, of course, are very small at one end and very large at the other, and the figures for the corporate operations are more easily obtained and accepted than any other, and we must use that measure of comparison with sums which represent so large an aggregate, a total. We may be safe in assuming, fairly safe in assuming, that the bulk of the manufacturing business is carried on by corporations.

Mr. OLDFIELD. How many corporations are there in the country; do you know?

Mr. EMERY. I believe that the largest number of corporation income tax returns recorded by the department is 351,000.

Mr. OLDFIELD. Thank you.

Mr. EMERY. There are, of course, new corporations increasing the number all of the time, but on the other hand, death is overtaking others.

So, our corporate records of income—when I speak of net income I am, of course, talking of what remains after the expenses of business operations are paid. Beginning about 1909 and from that time to the present day the corporate income of corporations in the United States in 1909 was slightly over \$3,000,000,000.

At the outbreak of the war—I am speaking of the outbreak of the war in Europe now—it was approximately or a little less than \$4,000,000,000.

It rose rapidly until 1917 when the net corporate income of the United States was ten and three-quarter billion dollars.

Then it has decreased at the rate of about \$1,000,000,000 a year since that time, so that the estimates made for the year 1921 indicate now that the net corporate income for that year will be about a billion dollars less—seven and one-half billion dollars.

Of course, when we refer to that, you gentlemen realize that we are speaking of the buying power and it affects the corporation purchasing power as much as it does the individual purchasers, that

when the returns of the corporation were tabulated and there were \$7,500,000,000 its buying power was not much greater than the buying power of the corporations during the period 1910 and 1911, when the net returns were three and one-half billion dollars; that is, that their buying power, the buying power of the corporations in 1920, as measured by the scales of a 50-cent dollar.

So that the net corporate return of business in the United States as measured in its capacity to buy, all that is needed to sustain it has declined backward toward the point where it very closely approaches the buying power, what it was before the outbreak of the European war.

Mr. FREAR. That works the same way on every kind of business?

Mr. EMERY. Yes. I merely point that out to show you the difference between the normal and the real growth of the corporation business of the United States.

Now, the tax burdens changed very rapidly. Prior to 1915 the direct Federal taxes, exclusive of excise taxes on corporate business of the United States, was about 1 per cent. It became about 2 per cent in 1916, and in 1917 it reached 20 per cent and in 1918 about 33 per cent.

And in 1919 it began to decline rapidly.

For the three year period 1917, 1918, and 1919 you can figure the net income paid directly to the Federal Government in taxes at substantially \$3,000,000,000, while there is an additional billion of dollars collected as State and municipal taxes from corporations alone, so that the corporations' net incomes sustained the burden during those years and substantially the present, or substantially \$4,000,000,000, and the peak of the net corporate income was more than one-third of the total.

Mr. OLDFIELD. How much did they have left after they did that?

Mr. EMERY. Why, they had two-thirds left.

Mr. OLDFIELD. They had on an average about \$7,000,000,000 a year?

Mr. EMERY. Oh, no; not on an average by any manner of means, because since 1917 there has been a falling off of about a billion dollars a year. It has decreased from nine and a half to eight and a half and to seven and a half.

Mr. OLDFIELD. I was thinking of 1915, 1916, 1917, 1918, 1919, and 1920.

Mr. EMERY. In 1918 it was about \$8,000,000,000.

Mr. OLDFIELD. Yes.

Mr. EMERY. It dropped back——

Mr. OLDFIELD. What was it in 1917?

Mr. EMERY. About seven and one-half billion.

Now, they distribute about two-thirds to the owners of the corporations—that is, to the shareholders—and the other one-third remains in the corporation for the purpose of operating the corporation and buying the things that they use, or for the purpose of applying it to productive and reproductive industry, to provide machinery for the production of business, for the purchase of new machinery, additional equipment, which, of course, in the manufacturing industry goes on every moment, because the manufacturing industry is dynamic and not static. It is continually applying new experiments and new processes and new forms, and

not alone in the manufacture of goods for consumption, but there are those other manufacturers of tools with which all other industry is carried on, including equipment and transportation.

So that now, as a revenue producer, the manufacturing industry—and you understand now that I am speaking of the general corporate business, contributed one-third to the Federal revenue, so that the manufacturing industry contributed from 68 to 70 per cent and in addition——

Mr. FREAR. Where do you get those figures?

Mr. EMERY. From the reports of the Commissioner of Internal Revenue.

Mr. FREAR. Sixty-eight to 70 per cent from the manufacturing corporations?

Mr. EMERY. Sixty-eight to 70 per cent, so the payments direct by the manufacturing corporations and if you include construction and quarries not included as manufactures, but which is manufacturing industry, it goes above that amount and will easily reach the 78.

Mr. FREAR. So you get 68 per cent of the one-third?

Mr. EMERY. Sixty-eight per cent of the part paid by the corporations is paid by manufacturers.

Mr. FREAR. This is 68 per cent of one-third?

Mr. EMERY. Sixty-eight per cent of one-third, yes, sir.

Mr. OLDFIELD. I suppose that the manufacturing corporations are probably 68 per cent of the whole number of corporations?

Mr. EMERY. Whole number of what?

Mr. OLDFIELD. Corporations?

Mr. EMERY. Hardly that.

Mr. OLDFIELD. So far as investment goes.

Mr. EMERY. Hardly that, because you have got a very large number of financial corporations and corporations of that kind, and banks in the field, and you have got public utilities, transportation corporations of all kinds which covers a very extensive field, indeed, and subtracts very largely from that.

Again, you will observe that the rate of the manufacturing corporations reaches out again into the Federal Treasury through the dividend payments which are taxed whenever they reach the owners.

Now, it is estimated by the economists of the country that substantially 60 per cent of the dividend payments are paid to persons with incomes of \$20,000 or more a year, so that they reach into the surtax column and are taxed again. It is estimated that from 1917 to 1919 \$1,000,000,000 was paid to the Federal Government in taxes on dividends paid to stockholders in the corporations in the United States in addition to the tax paid by the corporations themselves.

Now, I would just like to call your attention to one thing in this connection, Mr. Chairman, which is to be considered so far as this body of wealth-creating corporations in the economic life of the country is concerned, and that is that we are different from England and we are different from France in the source of our capital accumulations out of which the business of the country and the development of business is to be carried on. Our people have not been people who were heavy investors in Government securities until the war. They have not bought bonds until the war. The great body of American wealth has not been invested in bonds, as it has been invested in England and in France, and it has not been invested in this country

in bonds until the war, but in active enterprises, financing transportation and manufacturing, and the new wealth that is required for the carrying on of these things is largely accumulated out of the savings of corporations. That is the chief source of new wealth in the United States.

And they have been investing one-third of all their income. That has been true in the past for many years. That has been kept in the surplus and used in that way, and that has been done by most corporations in the past, and those figures will disclose the relationship between the capital invested and the capital stock in the capitalization of corporations of the United States.

I take my figures from corporate earnings and common earnings, being a Senate document prepared on June 6, 1918.

You take 45 per cent of the manufacturing corporations, which is all there are with a capitalization of \$100,000 and more to-day, and it shows that their capital stock is \$1,619,000,000. And the invested capital estimated in 1917 was \$2,000,947,000. In other words, the investing capital in these manufacturing corporations is 182 per cent of their capital stock, so you can see at a glance the immense amount that has been put back into the business. And it is necessary in order to carry it on. And that is a condition that is peculiar and characteristic of American industrial pursuits, which I am sure you gentlemen have in mind largely in considering tax problems.

Mr. FREAR. That includes manufacturing alone?

Mr. EMERY. That includes manufacturing alone. These are manufacturing corporations only.

Mr. FREAR. That is, the stock is worth practically two for one?

Mr. EMERY. Yes, sir.

Now, you gentlemen are familiar with the general business conditions of the country and you can see at a glance that that has been the history and that that is peculiar to the American corporations, the great corporations that have been developed in this country. Take, for instance, the tremendous Ford plant. That was built up out of reinvesting the earnings from the original capital, and that is true with many other manufacturing plants. That has been the policy in many great railway companies, like the Lake Shore, the Pennsylvania, and others. They have been built up entirely by putting back into the business the earnings on their capital stock.

I say this to you, because many propositions have been laid before you to reach in and encroach upon the undistributed surplus as though it were money that had been earned and stored up and has been saved to be set aside and divided, or split up among the stockholders at some fortunate time.

Mr. FREAR. The question alone as to whether or not the taxes should be determined upon dividends based upon the stock or upon the invested capital is an important one. If it were based upon stock, of course, it would be much larger than if it were based upon invested capital.

Mr. EMERY. Well, I do not think that it is predicated always on that, Mr. Frear. I think that it is predicated on the state of the business; that is, the rate of return, of course, is fixed—

Mr. FREAR (interposing). Well, that would determine the value of the capital invested in production.

Mr. EMERY. I think that both methods are employed.

Mr. TILSON. The dividends are figures on capital stock.

Mr. EMERY. Well, of course, there are many ways of figuring it. Some figure it on capital stock and some on invested capital.

Mr. CHANDLER. Of course they have got to be figured upon going concerns.

Mr. EMERY. Absolutely. Their life depends upon them being a going concern.

Mr. CHANDLER. They are not of a value like gold.

Mr. EMERY. No, indeed; they have not a static value; it is a dynamic value. It lives by its motion.

Mr. FREAR. It is like a farm, of no use unless it is improved and cultivated.

Mr. EMERY. No, indeed; it is a brush patch, unless it is improved and cultivated. And these manufacturing plants are just a pile of junk and are useless unless they are used; unless they are going concerns they are a pile of junk.

Mr. HADLEY. Are you going to put a statement in the record as to the source of taxation suggested?

Mr. OLDFIELD. In answer to a question by Mr. Garner I understood your statement to be that you were going to furnish a statement with regard to the source from which you would get additional taxes, the source that you would go to get this taxation in lieu of those you repeal.

Mr. EMERY. Yes, sir.

Mr. HADLEY. Now, that will not be available for this committee for some little time. I myself would like to have the benefit of your suggestion in a general, concrete way now, because I want to be thinking about it.

Mr. EMERY. Well, I should say, first of all, that the views I hold and those of the National Association of Manufacturers—some of the other State organizations differ—I do not want to discuss their views, or discuss the views of any organization except that of the National Manufacturers' Association, and they have expressed their views. I am not authorized to represent anyone else.

The National Association of Manufacturers has a committee which has studied this subject for two years, which is composed principally of business men and they have gone over all of these matters. They realize the necessity for adequate revenue and believe that it ought to be raised with the least injury to the operation of business in its constituted forms and that it is the business of Government, of course, to promote and stimulate the source of wealth production and the distribution, and that certainly is a large problem. And it has made its recommendations in the light of that concept of revenue, revenue production. And it believes, of course, that a larger return could be had from taxes on imports and has stated—

The CHAIRMAN (interposing). Mr. Emery, we have heard you for a considerable length of time and we have some 20 others here to-day to be heard. I want to ask you one question.

If Congress or the committee decides to recommend to Congress the repeal of the excess-profits tax law—there are three corporation taxes, a tax upon the stock, a tax upon the capital stock of \$1 per \$1,000 value; then there is a corporation income tax and the excess-profit tax. If, as it is proposed, those taxes should be repealed and

that it is found necessary to raise about as much money from the corporations as is being raised under the existing laws, have you any suggestions about the consolidation of those three taxes into one and the simplification of the administration of same?

Mr. EMERY. Why, the suggestion has been made within limits, to increase the corporation, the tax on net corporation income wiping out the allowance of \$2,000 at present existing, and consolidating it with the capital stock tax by the elimination of the capital stock tax.

Mr. GARNER. Now, let me see. Do I understand that your association stands for the repeal of the excess-profits tax and the repeal of the capital-stock tax?

Mr. EMERY. If I may, I would like to reply to the question which Mr. Fordney has just now asked.

The CHAIRMAN. Let him complete his answer. His answer was—

Mr. EMERY. I stated that that problem had to be met, Mr. Chairman, and I realize—

Mr. GARNER (interposing). Let me ask you a question. I think I can get—

Mr. EMERY. May I complete my statement?

Mr. GARNER. I think I can get the information. My question was very simple. If you repeal the excess-profits tax, will you be willing to contribute the same amount of money from the net income of corporations?

Mr. EMERY. Well, I do not think we ought to contribute the same amount of money that we have been contributing in the past.

Mr. GARNER. Well, I agree with you, but we have got to collect the same amount of money with the present rate as it is or transfer it to the net income of other corporations.

Mr. EMERY. Yes. I am speaking for the National Association of Manufacturers.

Mr. GARNER. I understand. That is what I am asking. I am asking you for an answer in their behalf.

Mr. EMERY. And the National Association of Manufacturers believe that a more fair and equitable method would be the collection by a system through a gross turnover sales tax, on condition that—

Mr. GARNER. You do not answer my question, and I think that you can answer it. If we have got to collect the same amount of money that we are now collecting from the net income of the corporations, or the net income of corporations plus the excess-profits tax, which makes two taxes, would your association be willing to contribute the same amount of money on one tax, collected some other way?

Mr. EMERY. Take the tax on the net corporate return and that—Mr. Chairman, if you will permit, I realize that I am taking a lot of the committee's time—I want to answer this question if I can, Mr. Chairman. I want to say that the Manufacturers' Association, as I understand their position, believe that 90 per cent of the present tax law is administration and that it is very uncertain. A great many claims have arisen under it, and the people are unable to get their taxes paid.

I have some concrete suggestions here, Mr. Chairman, with regard to the administration of the tax law, and without reading it to the committee I would like to put it in the record for your consideration. That is drafted so that you can easily understand it.

The CHAIRMAN. We will be very glad to have it.

Mr. EMERY. And I want to make one further remark about administration, and that is in connection with the construction of the tax law.

We have abandoned the principle of American taxation that is as old as English customs, and that is the distinction between assessment and collections, so that one party assesses a tax and another party collects it and it predicates its collective power upon the assessment, where the assessed individual has an opportunity to make his appeal.

To-day he assesses himself, and he does not know whether his assessment is correct or incorrect and he has often not been able to find out over a four-year period and after many examinations of his books.

Now, that, Mr. Chairman, is one of the great objections to the excess-profits tax. And the excess-profits tax has become impossible of administration.

Secondly, Mr. Chairman, it is highly——

Mr. FREAR (interposing). What do you mean when you say "It has become impossible of administration"?

Mr. EMERY. I mean that the administration has broken down because men never know when they get their taxes finally paid.

Mr. FREAR. I am informed by some of the Treasury's best experts, and they are experts, that they have machinery that is worked out so that the average man with a corporation may make up his excess-profits tax return with very little difficulty as compared with what it was in the first place.

Now, they say that they have lecturers in the field, and that those men are continually going out and advising the corporation as to how to make out their income-tax returns and giving them instructions. Is that statement correct?

Mr. EMERY. I think that unquestionably there has been an improvement

Mr. FREAR. A great improvement.

Mr. EMERY. I think there has been an improvement in the administration, but there is unquestionably a great difference between the Treasury experts, and there is a great difference between them because we come to this difficulty, where one Treasury expert will get an entirely different result from the examination of the same return, same books——

Mr. FREAR. Oh, I know that that was true with the earlier administration of the law, but they have worked out and ascertained principles upon which all of these men agree and they are instructed with regard to them. Is that not true to-day?

Mr. EMERY. Certainly it is, and in the first place there is not only between the experts in the Treasury but there is a great difference between the experts and the taxpayer as to the interpretation of the principles of the excess-profits tax law.

The CHAIRMAN. If you will permit me, Mr. Emery, I will say that I know of one corporation in my own town, or rather two corporations, under one management. One was an elevator and the other a gristmill. And they made their returns and the Government sent an inspector there and he said, "You still owe the Government \$1,100. Your statement is not correct." And another inspector came along and examined their books and said that their statements

were correct. Another inspector was sent back, and said that the corporation's statements were correct, and that they had settled with the Government. The Government still being unsatisfied about the matter sent another man and he said, "You have overpaid the Government \$3,200."

Now, those three were Government experts.

Mr. EMERY. Mr. Chairman, if I may state, those things are continually happening and what I am telling the committee is not intended as any reflection on the Treasury Department, nor on the Commissioner of Internal Revenue, or his assistants, whom I have found to be earnest, high-minded men, working sincerely, but the difficulty is native in the law.

Mr. FREAR. Now, I am informed by some of the Treasury experts, and they are experts, because they are engaged in passing upon this identical question you speak of, that if we adopted the income or normal tax of 15 to 16 per cent, the question of invested capital is going to enter into that, and that we will have the same difficulty that we are to-day having with the excess-profits tax, but simply from another angle.

Mr. EMERY. That is exactly the reason why so many business organizations have wanted you to experiment, make experiments in a limited way, if you please, as to the different methods of collecting this tax, in order to avoid these difficulties, and we realize that there are difficulties surrounding it.

Mr. FREAR. Now, getting back to the proposition of these other alternatives. Is it not true that some corporations are going to be more injuriously affected by an income or a normal tax of 15 or 16 per cent than they are by the excess-profits tax which you are complaining of being hard of administration. Take that question. That is a very important question, and you are an authority and I believe that you can pass judgment on it.

Mr. EMERY. No; I would hesitate to answer that, because it covers such broad generalities, but I would say to you that there has been a great objection brought by many of the small corporations to increasing the net corporation tax, and it is a difficult condition.

That is why, Mr. Chairman, we believe that one of the most practical things which this committee could do to make toward better administration of the tax law, would be the creation of what existed under the act of 1918, and has been abandoned by the Treasury Department, by which there ought to exist and does exist in every tax-levying country except this one what is known as a board of income-tax examiners, having similar duties to those of the war contract adjustment board, composed of tax experts, whose final judgment on behalf of the Government settles the issue before them.

More than that, Mr. Chairman, we have pending millions of dollars worth of claims, some of which have been pending for four years, and which are, of course, working a very great hardship upon the taxpayers, and the taxpayers do not like this because it is necessary for them to set aside a fund to meet these taxes whenever judgment is had by the Treasury, and yet it is doing the Government a great injustice, because they should be able to get the revenue, but they have not been able to get it after four years. They should have been enjoying that revenue.

That board, or a similar board, should be appointed by the Secretary of the Treasury, as a board of Federal tax adjusters to undertake to do the work as the Board of Contract Adjustments did in the War Department with the military contracts. It should be composed of tax experts, and should be able to take up these claims and adjust them and settle them, and what they said should be final.

Mr. FREAR. Would it be well to incorporate that in this law?

Mr. EMERY. Yes; but I would be in favor of going a step further, and to-day the system is suffering from too highly a centralization. If we could decentralize the board, and have them sit at Portland, Me., and Fort Worth, Tex., and go from place to place, and sit in Washington or Oregon so that a man would not have to come to Washington City in order to get a settlement of his taxes, which is outraged injustice on him, because you compel him many times to pay taxes which he objects to and which he has a perfect right to object to but he can not afford the expense of coming to Washington and contesting the claim with the Government.

Mr. GARNER. That is very interesting and I agree with you, but we can not have several Supreme Courts such as you suggest passing on the amount of taxes that a man owes.

Now, if you had a central body that could move about, as it were, visiting each of these different places, and if you could have a hearing in Portland, Me., a board which would see all of the taxpayers in that territory, a body of three men authorized to have hearings at Portland, Me., and then let them move to Fort Worth for the same purpose, that might work satisfactorily; but if you are going to have separate boards, a separate board at Fort Worth and a separate board at Portland, Me., I think that you would get into a lot of trouble.

Mr. EMERY. If you will pardon me, Mr. Garner, I think your suggestion might very well work out if we only had one workable. It has been the practice of our courts to bring justice to the people rather than to compel the people to hunt justice and we have carried our courts to the people rather than making the people come a long distance to hunt the courts. Thus, we have our district courts in every State, and it is only on appeal cases that come up to the higher courts where they have to go any distance.

Now, there is no reason why we can not apply that to the Federal revenue districts, to local boards of adjustment, which local board in the localities would pass upon the question, and then your board of final tax appeal to which I have referred could settle the questions that would come up before it, and they would be binding upon the parties, upon the Government, and upon the taxpayer.

In Great Britain, for instance, where there is no man that has to go more than five hours to reach the capital they have boards of inland revenue and assessors in every district, and those men work without compensation. And there are in all parts of the United States men who have the interest of the Government at heart and who would work, and could work, for a nominal rate or practically no compensation.

I think that it is quite possible, Mr. Chairman, even for the persons who undertake in the first instance to assess the taxes. That is done over there and has been done for years. It has 100 years of experience behind it.

Now, there is no reason why in a large country like ours, with the physical difficulties as great as they are, that men should not have an opportunity to adjust their claims against the Federal Government in their own State, and without being compelled to come to Washington.

Now, Mr. Chairman, I have taken a great deal more of your time than I intended to, and if you will permit me, I will be very glad to file a brief.

The CHAIRMAN. We will be very glad to have you prepare a brief, and have it printed as a part of your testimony in the record.

Mr. EMERY. And I will be very specific in order to answer your inquiries, and present the matters you have asked.

I am much obliged to your committee.

The CHAIRMAN. Thank you.

BRIEF OF JAMES E. EMERY, WASHINGTON, D. C., REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS OF THE UNITED STATES OF AMERICA.

In further response to the inquiry of Mr. Garner as to the tax position of the National Association of Manufacturers of the United States, permit me to say that that organization proposes the repeal of the excess profits tax (revenue loss estimated \$450,000,000, 1921), war excise taxes on particular business (estimated revenue loss \$400,000,000, 1921), a special war excise tax on transportation and communication (estimated revenue loss \$350,000,000, 1921), or a total of \$1,200,000,000 estimated revenue loss from these three sources which, in the opinion of the association, should be met by the levy of a 1 per cent gross turnover tax on goods, wares, and merchandise.

The association favors the retention of the existing personal and corporation income taxes, and a reduction on the upper brackets of the surtax to a point between 30 and 35 per cent, in the belief that it is demonstrated by experience that this is the point at which the surtax ceases to be substantially productive and tends to drive free capital into tax-exempt securities.

The returns from 1916 to 1918 show a depreciation of 52 per cent in the number of persons returning taxable incomes in excess of \$300,000, while the volume of taxable income decreased in these years from \$993,000,000 to \$401,000,000. This is obviously a condition in which the apparent operation of the legislation is defeating its primary purpose, since it is driving income out of reach of taxation and thus not only depriving the Government of revenue, but restricting valuable free capital.

In this connection let me say it is the general belief of the association that the investment of between fourteen and sixteen billions in tax-exempt securities and the rate of issuance of such securities by the States and municipalities seriously menace the supply of free capital essential as the basis of sadly needed credit and capital for industrial security and development. The sums already so invested can not be reached by constitutional amendment, but the association would favor such necessary legislation as will make payment on future issues of such securities taxable. The sums already so invested can not be coerced, but may be persuaded to return again into the field of productive enterprise as conditions of investment therein improve.

The association is not to be understood as opposing excise taxes as a means of raising revenue, but of that portion and those taxes which it was publicly stated were laid as war measures and would not be justified or sustained in peace times.

If, as was asked, it be a choice between the retention of the excess-profits tax and an increase in the rate of the corporate income tax, the latter is preferable, provided the exemption of \$2,000 is removed in order that smaller corporations having net income make a proportionate contribution to the public revenue.

The association's objection to the excess-profits tax is not predicated upon any objection to a graduated tax upon business income, but upon the demonstrated fact that—

1. The productivity of this tax as a revenue provider is uncertain, and continually diminishing to the point of unreliability.
2. In the opinion of experienced administrative officers, and of authoritative and experienced opinion, the administration is so complex and difficult as to apparently break down, since it unduly and excessively delays settlement, where it is effected at all within reasonable limits.

3. It arbitrarily discriminates between various forms of organization and managerial policy in the conduct of the same in different industries, penalizing conservative capitalization, and in effect rewarding inflated capitalization.

4. It disregards the relation in business between risk and return, unjustly and uneconomically assuming that profit in any form of business above 8 per cent is excessive. This is not only untrue, but creates a dangerous social implication in the public mind.

5. The definition of invested capital, upon which its collection is predicated, is artificial, ambiguous, and exceedingly difficult of practical application, ignoring as it does all forms of appreciation due to the practical fact of business management.

6. It tempts to extravagance in business management, and because of the ambiguity and indefiniteness of its terms, stimulates excessive loading.

7. Its administration demands so much information that it excites irritation and hostility, practical factors which obstruct the efficiency of administration.

8. It occasions charges of evasion and dishonesty out of the honest differences likely to exist between the taxpayer and his Government over the construction of an ambiguous and complex regulation.

The association respectfully urges upon your consideration, as additional sources of revenue—

1. Increased postage rates upon first-class and other classes of mail.

2. It is apparent that the documentary stamp taxes have been substantially all taken from Civil War and in turn from Spanish War regulations without a substantial increase in rate. These, we believe, can in many cases, without injury to the taxpayer or the lessening of revenue, be doubled and trebled.

ADMINISTRATIVE SUGGESTIONS.

In many ways the manufacturer is more concerned about administration than rate, for the fundamental requirements of successful business operation are stability of conditions and certain obligations.

We believe the experience of the past four years with tax administration permit of very definite recommendations for changes in substantive law, which will not affect the revenue but greatly facilitate operation.

We therefore especially recommend to your honorable committee the following changes for consideration in your approaching draft:

1. That you incorporate the substance of all the provisions of H. R. 14198, reported by your committee in the Sixty-sixth Congress, and which passed the House May 27, 1920, with modification of the provision in relation to gifts, in section 1 of the bill, to protect the position of the donee when not in a position to ascertain the cost of value of property at the time of its acquisition by the donor.

2. We urge, further, that the provision of section 4, providing a five-year limitation upon additional assessment or suits for collection of taxes, should be limited to three years, which under normal conditions ought to be a sufficient time for audit.

3. We further recommend that a net business loss sustained by a taxpayer in any year should be allowed as an off-set against net income for the succeeding taxable year, or, if the net loss exceeds the net income of the succeeding year, the amount of the excess should be deducted from the net income for the preceding taxable year or years.

This should affect 1918 and each subsequent year.

4. We recommend that where property is exchanged for other property, no taxable gain nor deductible loss should be deemed to be realized unless the property received is the equivalent of cash, in the sense that there is a market in which it could be discounted or converted into cash at a fair value.

5. When a corporate reorganization involves only an exchange of stock or securities, or when a person or persons owning property receive in exchange for such property stock of a corporation (or an interest in a partnership) formed to take over such property, no taxable gain or deductible loss should be deemed to arise, and the new stock or securities received should be treated as taking the place of the stock, securities or property exchanged.

We especially urge on your honorable committee the decentralization of administration—

(a) By providing for a board of tax assessment or adjustment in each revenue district, from which appeal may be had only to a board of final appeal or adjustment, appointed by the Secretary of the Treasury and sitting at Washington.

(b) Said board of final appeal should also be made a board of final tax adjustment with respect to all pending and future disputes, all pending disputes from 1917 to

1920, inclusive, which are still unsettled and which represent final settlement and adjustment by the Government, except from by ascertained fraud.

There is just resentment of irrigation throughout the country because hundreds of small taxpayers, individual and corporate, can not afford the retention of counsel or a visit to Washington to present protests and secure adjustments. The means of justice, as in our courts, should be within reasonable reach of the taxpayer instead of compelling him, at great inconvenience and expense, to seek his justice and adjustment at the capital of a country of vast area and great distances.

Furthermore, the function of assessment and collection should be distinguished and definite in all forms of income taxation as in all forms of the assessment of real and personal property, a fundamental distinction in our law and practice from the beginning of our system of government.

LAND VALUES.

JOHN S. CODMAN, TREASURER FABREEKA BELTING CO., BOSTON, MASS.

Mr. TIMBERLAKE. What business do you represent?

Mr. CODMAN. I am treasurer of the Fabreeka Belting Co.

The CHAIRMAN. All right, Mr. Codman; we will be glad to hear you.

Mr. CODMAN. Mr. Chairman and gentlemen of the committee, the committee of manufacturers and merchants which we here represent, I and these other gentlemen who are with me, is a committee formed of manufacturers and merchants, in all about 31,000 in number, representing a capitalization of \$7,000,000,000. And we are primarily interested in securing taxation which will free the industries of the country.

We are not down here having a narrow point of view. We have not been interested only in what is affecting our own business, but we are interested in the question of the industries of the country as a whole.

We believe that the industries of the country can be relieved very greatly from taxation, and that will mean all producers and all those who serve the country, not only the business men of the country, but the farmers, the wage earners, the professional men, and the tradesmen.

And, finally, we believe that the relief of industry will be eventually for the benefit of the consuming public in lower prices.

Now, I am going to make a comparatively brief statement of our position. I fully realize, however, that this subject can be brought out very much better by questions. It will greatly help to elucidate the situation and I hope that you will ask all the questions that you want. At the same time, I am going to ask the favor of the committee, namely, that they will not ask questions during my remarks unless they are directly to the immediate point and will help clear up the situation as I go on.

The CHAIRMAN. I will ask you to be to the point and as brief as you can, as we have several gentlemen to be heard before 12 o'clock and I understood that you wanted only a few minutes.

Mr. CODMAN. Well, now, we want to take the tax off of the industries of the country.

Federal taxation as levied to-day is levied entirely upon industry. In the early days of this country Alexander Hamilton stated that taxation must be levied on one of two things, either on land or on commerce.

Now, by that he meant, we take it, that taxation must be levied either upon the privilege of holding a portion of the public domain in

exclusive possession or that it must be levied upon the activities of the people in production, exchange, transportation, and other activities.

Federal taxation to-day is levied upon industry and not upon the great privilege of landholding. There is all of the distinction in the world between these two forms of taxation.

Taxation of landholding is the taxing of privilege—in one sense it is not a tax at all—but the payment for the greatest privilege, the right to exclude all others from that part of the public domain, and to use it exclusively for oneself. We are in favor of the repeal of the excess-profits tax, because we believe that it is a tax on the industry of the country; but we are in favor of it with this proviso: We are not in favor of the repeal of the excess-profits tax, and the substitution in its place of another tax which is equally levied upon the industry of the country. It is not my intention to go into the merits of the various proposals for taxation that have been made.

Mr. HAWLEY. Does that statement mean that you are opposed also to corporation taxes?

Mr. CODMAN. We are opposed to the corporation tax; that is, we are opposed to it as a tax upon industry. In fact, we are in favor of the repeal of all taxes upon the industry of the country, and we also do not favor the sales tax, which is simply another tax upon the industry of the country.

Mr. HADLEY. In other words, you want to shift the tax from yourselves to the landowners of the country. That is what it amounts to substantially?

Mr. CODMAN. I do not know why the gentleman should say "yourselves." A great many of us are landowners. I am a landowner myself. It is true, however, that we want to shift the taxes from industry, which represents all producers, and thus free the industry and make it go ahead. This will be of advantage to everybody in the country. A part of that tax we should shift onto those that hold the privilege of landholding.

Of course, land is indispensable to the industry of the country, and if it is held out of use, industry is prevented from getting at the first and indispensable requisite.

The CHAIRMAN. Would you exempt any amount of landholding up to a certain amount and tax the fellows above a certain value of holdings?

Mr. CODMAN. Yes, sir. The bill that we are presenting, or the bill that we are indorsing, is the one that was introduced by Congressman Oscar E. Keller for the taxation of the privilege of landholding at 1 per cent over and above the value of \$10,000.

The CHAIRMAN. You heard the arguments of one of the gentlemen yesterday, or day before yesterday, with regard to the taxation of land values? He did not want to tax land that was worth not to exceed \$10,000. Therefore, the most of them would be exempt, and they would shift it to the other fellow.

Mr. CODMAN. I did not hear the statement. I do not know to what gentleman you refer.

The CHAIRMAN. That argument was made here yesterday or the day before yesterday.

Mr. CODMAN. It would undoubtedly exempt from taxation the bulk of the home owners and the bulk of the farmers who are real farmers.

Mr. GARNER. Mr. Codman, I believe I understood you to say when you started that you represented about \$7,000,000,000 capitalization of the merchants and manufacturers.

Mr. CODMAN. That is the capitalization.

Mr. GARNER. That is the capitalization?

Mr. CODMAN. Yes, sir; that is the capitalization of the firms that are back of this bill.

Mr. GARNER. And your position is to support the Keller bill as it was the labor unions' position? In other words, your policy is the same as representing a capitalization of \$7,000,000,000, manufacturers, as that of the union labor associated with the manufacturers, with reference to these tax views. They are the same; is that correct?

Mr. CODMAN. I do not understand what you are speaking of.

Mr. GARNER. Well, they did appear here yesterday, the American Federation of Labor appeared and suggested the same law, and I was wondering if there had been any understanding between the manufacturers and the laborers in the factories as to their policy with reference to this bill?

Mr. OLDFIELD. This gentleman believes in the repeal of the excess-profits tax, and the labor people do not believe in the repeal of that tax.

Mr. GARNER. But the labor man did believe in this tax.

Mr. GREEN. Has the question of any constitutional difficulties occurred to you?

Mr. CODMAN. The question has been raised, certainly, and it was our intention, if this hearing had not been called so suddenly, to have had a brief to present to you on the constitutional question.

Mr. Jackson H. Ralston is at the present time in Los Angeles, Calif. He thought that the hearings would be held at a later date.

We shall be glad to refer to that, however, if you will allow me to continue along the line——

The CHAIRMAN (interposing). You say you represent \$7,000,000,000 capital. What authority have you to present to the committee to show that you represent all of that organization?

Mr. CODMAN. Well, we would have to give you the names of the indorsers of our proposition.

The CHAIRMAN. Well, no; I want to know who authorized you to speak for the \$7,000,000,000.

Mr. CODMAN. The executive committee of the Committee on Manufacturers and Merchants on Federal Taxation authorized me to do so.

Mr. YOUNG. You have 31,000 membership?

Mr. CODMAN. Yes sir.

Mr. COLLIER. Mr. Codman, have you given any consideration to the fact most of the States in the Union derive their revenues for the operation of their State governments through taxes on land?

Mr. CODMAN. Yes; we gave a great deal of consideration to that.

It is sometimes said that the Federal Government ought not to trespass on the sources of revenue of the States. That was said with regard to the inheritance tax and that was said with regard to the income tax; but we have both of those now, there is a Federal income tax, and a Federal inheritance tax now in operation.

Now, this committee stands for the repeal of all taxes on industry, so far as possible. We stand for the repeal of the excess-profits tax,

for the repeal of the corporation income tax, for the repeal of the transportation tax, which is hitting every industry in the country. We do not wish to see any additional taxes levied on automobiles. They have become a necessity to the American people. An enormous amount of the business of the people in America is done with trucks to-day, and they are indispensable. Land values in different parts of the country have greatly increased by reason of the automobile opening up the territory. We have no better example of that than the Cape Cod district in my own State (Massachusetts), which by magnificent roads or highways running clear down to Provincetown has caused the establishment of tea houses and inns, and has resulted in the land abutting on those State roads increasing in value a great deal.

Mr. COLLIER. You think that we ought to raise \$4,000,000,000 on land alone which is already taking care of the State governments? You want—

Mr. CODMAN. No, sir; I do not want to do that.

Mr. COLLIER. You want to repeal every other tax?

Mr. CODMAN. No; I have not made any such a statement as that. I think that you must have misunderstood me.

Mr. COLLIER. I thought that you had stated that you did.

Mr. CODMAN. No.

Mr. COLLIER. You have gone down the line repealing all the other taxes. You do not want a sales tax, you do not want an excess-profits tax, you do not want a corporation tax or a tax on automobiles, and you want to repeal all other excise taxes. Well, now, do you want to repeal all income taxes, too?

Mr. CODMAN. No, sir; we are not asking that the income taxes be repealed, because they do not fall so heavily on business as those other taxes.

Mr. GREEN. Let me ask you what you propose. You must have a definite proposition to make.

Mr. CODMAN. It is expected that this land tax alone would raise about a billion dollars.

Mr. GREEN. No; I am speaking of this proposed tax. Now, let us see what your proposition is. You propose to repeal these other taxes without offering any substitute. How much do you think will be raised by that?

Mr. CODMAN. I think the best way to get that would be to go over those figures.

Mr. GREEN. Well, will it be a half, a third, one-fourth, or three-fourths approximately?

Mr. CODMAN. Well, it will come to something like a billion and a half.

Mr. GREEN. And you propose to transfer that to the land?

Mr. CODMAN. Transfer that to the land and inheritance taxes.

Mr. GREEN. How much do you figure that you would raise out of these land taxes?

Mr. CODMAN. About a billion dollars. Mr. Keller in his speech on this subject said \$960,000,000.

The CHAIRMAN. If you will permit a suggestion with regard to the amendment suggested, you have suggested the repeal of all of these taxes and you have only offered a tax which you say will raise in the

place of them one billion as against a billion and a half repealed by one item alone, which your proposition repeals

Mr. CODMAN. All of these figures, Mr. Chairman, are given very distinctly——

The CHAIRMAN (interposing). You repeal the corporation tax, which yields a billion and a half dollars.

Mr. CODMAN. We have given that very careful consideration, Mr. Chairman. Mr. Keller has given that very careful consideration.

Mr. GREEN. Some of us are not willing to accept Mr. Keller's statement as entirely accurate.

Mr. GARNER. Let me see if I understand your theory correctly. Your theory is this, that you are in favor of an inheritance tax and you are in favor of levying an individual income tax; is that correct, your association?

Mr. CODMAN. We are supporting bills that——

Mr. GARNER. I am simply trying to get your viewpoint. You are in favor of an inheritance tax and you are in favor of a land tax, and you are in favor of increasing the personal income tax?

Mr. CODMAN. Increasing the personal tax——

Mr. GARNER (interposing). Increasing the personal tax; yes, sir, and you are in favor of the individual income tax upon the theory that it does not disturb business or disturbs business less?

Mr. CODMAN. It disturbs business a good deal less than the other taxes.

Mr. GARNER. Would you be willing to increase that a little in order to get a little more money?

Mr. CODMAN. We have made our proposal. I do not think that we would want to do so.

Mr. GARNER. And then in addition to that you would repeal all other taxes and levy the balance necessary upon land values in excess of \$10,000?

Mr. CODMAN. No; we would have the tariff, the duties.

Mr. GARNER. The customs receipts?

Mr. CODMAN. Yes; we would have the customs receipts.

Mr. GARNER. But that is all that you would raise through the internal revenue?

Mr. CODMAN. That is all through internal revenue.

Mr. GARNER. You would have the customs receipts, the Post Office receipts, which have taken care of the laws that have already gone by, but under your system of taxation, as I understand, you would only have the Post Office receipts, customs receipts, inheritance tax, income tax, and tax upon land values in excess of \$10,000?

Mr. CODMAN. Yes; I think you have stated them all. The capital stock would still remain.

The CHAIRMAN. The gentleman has occupied 25 minutes, and I will have to ask him to retire, because we have several other witnesses here who wish to be heard.

Mr. CODMAN. I beg your pardon, Mr. Chairman. If I have occupied 25 minutes it has not been my fault.

The CHAIRMAN. Yes; you invited the trouble yourself, my dear sir, when you asked the committee to ask you questions.

The gentleman will be given 5 minutes more, because there are 21 people here to be heard to-day, and we will give you 5 minutes more. You have already occupied 25 minutes.

Mr. HOUGHTON. Do you have any figures?

Mr. CODMAN. I can file such information with you.

The CHAIRMAN. The gentleman may file such brief as he may desire.

Mr. CODMAN. You asked for the figures as to the value of the land?

Mr. HOUGHTON. Yes, sir; in excess of \$10,000, in the United States.

Mr. CODMAN. I do not know that I can give those figures accurately.

Mr. HOUGHTON. Then you do not have any figures as to the amount that will be raised from this source?

Mr. CODMAN. Well, now, I gave you an idea as to how we got at the \$1,000,000,000 of land-value taxes. The value of the land in this country is estimated to be \$140,000,000,000.

Mr. HOUGHTON. Oh, that is true, but what is the value of the lands in excess of \$10,000?

Mr. CODMAN. You can readily see that if we levied 1 per cent upon \$140,000,000,000 we would get a large—

Mr. HOUGHTON. That is true, but probably \$130,000,000,000 of that would be exempt under the \$10,000 exemption. What we want to know is the amount. I would like to know if you have any figures?

Mr. CODMAN. Allowing for those exemptions, it would come to just about \$1,000,000,000.

Mr. HOUGHTON. I want the figures as to how much this land will yield in the United States over and above \$10,000?

Mr. CODMAN. I do not think that I have it right at my finger's end. I do not have that. Perhaps Mr. Liggett can give you just what you want.

Mr. FREAR. Let me ask you just one question. It is a very important question. This, of course, is a novel proposition of taxation, and I do not know what the committee will do, because I have not settled in my own mind what I will do, but you feel that if the committee should adopt this other proposition, this proposed real estate tax, that all of the other taxes, the excess-profits tax and these other taxes which we have been levying, should be repealed?

Mr. CODMAN. Well, we feel that to continue them simply makes a heavy load on industry which it should not have to bear.

Mr. FREAR. Yes; but that does not answer the question. We are confronted with the necessity of raising taxes. What ratio would you raise in this manner?

Mr. CODMAN. We would still have—

Mr. FREAR. Would you continue the present taxes or would you repeal the excess-profits tax—

Mr. CODMAN. We would not favor the repeal of the excess-profits tax in order to substitute or increase the corporation tax, or a sales tax. I think it—

Mr. FREAR (interposing). Those are very important questions, and we have got to consider all of them.

Mr. CODMAN. For the excess-profits tax we would provide a tax on land holding. That would take care of that if it were adopted. In fact, I understood Mr. Keller stated that he would withdraw the repeal bill if the land tax bill were not adopted. He shows our position exactly.

The CHAIRMAN. Your time is flying fast, Mr. Codman. You have two more minutes.

Mr. CODMAN. All right. We indorse the four individual bills introduced by Mr. Keller. The first of these bills is for the repeal of these various things that I have been discussing; the second bill is to modify the income tax so as to separate earned and unearned income and reduce the taxation on earned incomes to one-half the amount it is at the present time on unearned incomes but to retain the tax on unearned income exactly as it is to-day, with all the surtaxes; the third bill increases the inheritance tax, and the fourth bill is for the purpose of raising taxes upon land values.

The tax raised on land values is distinctly not a tax at all upon industry. The very first effect that it would have would be to decrease the amount of land now lying idle in this country, which is valued at between 55 to 60 billions of dollars.

Mr. FREAR. You do not mean \$60,000,000,000. You mean 60,000,000 acres?

Mr. CODMAN. Fifty-five to sixty billion dollars' worth of land lying idle. There is a great opportunity to do business which is withheld by the owners, who do not pay the Federal Government any taxes on it.

Mr. GREEN. What kind of land is that? I am somewhat familiar with land over the United States?

Mr. CODMAN. It is timber land, oil land, mineral land, water-power sites—

Mr. GREEN. Including water-power sites? That comes under Federal restriction now.

Mr. CODMAN. It is not utilized, and it is privately owned.

Mr. GREEN. Yes; the great water-power sites are under Federal control, although the site may be individually owned.

Mr. CODMAN. And then, in so far as they are not used, they are not taxed by the Federal Government, not unless furnishing income, which is taxed under the income tax; they are not furnishing any taxes to the Federal Government and the Federal Government is receiving no revenue from it.

Mr. GREEN. Do you think that that land is worth anything—those water-power sites there?

Mr. CODMAN. Yes; some of those power sites are valuable; but they are not returning anything.

Then, we have something like 600,000,000 acres of farm land lying idle.

Mr. HOUGHTON. How much?

Mr. CODMAN. Six hundred million acres. Then, there is no better example than that.

Mr. GREEN. Do you think that land that is suitable for farming is not being used?

Mr. CODMAN. Why, of course.

Mr. GREEN. Where is it?

Mr. CODMAN. Out in the West and in the Middle West.

Mr. GREEN. I think I know more about the West and the Middle West than my friend, probably.

Mr. CODMAN. Is the gentleman from California?

Mr. GREEN. No; but I have been over California, Idaho, and all over those Western States, and owned land out there, and I know about it.

A. W. RICKER, WRITER, CHICAGO, ILL.

The CHAIRMAN. State to the committee who you are and the business you represent, so that the committee can hear you, Mr. Ricker.

Mr. RICKER. My name is A. W. Ricker; my business is that of a writer.

I am appearing here, gentlemen, for Mr. Nordman, Mr. Edward Nordman, director of markets of the State of Wisconsin, who was selected by the Farmers' Federal Tax League to appear before you, and on account of the haste with which you summoned the witness for these hearings, Mr. Nordman was unable to attend. I desire to make a very brief statement. Perhaps I know, as well as one can know, something of the statistics raised by the various members of your committee; that is, questions that were raised about statistics.

Now, none of us are omnipotent. We do not know exactly how much land values there are in the United States. The 1920 census approximates these values at around \$90,000,000,000. They were taken as of 1919, at the period of the greatest inflation of land values.

They possess no such value to-day. The farmers' land values have perhaps depreciated very closely to the depreciation of his products, and the depreciation of his products have been about 40 per cent, his crops and his animals and this depreciation of his products has depreciated his land values. How much those land values are to-day, I do not know and you do not know.

Now, in arriving at figures of this kind, the method must be empirical. It can not be otherwise. It is a guess, but we can make an approximately close guess. Under the provisions of Mr. Keller's bill, the land-tax bill, the farmer, the average, what may be termed the average farmer, that type of farmer which the census enumerates as worth about \$10,000 in land value, and that is the average of the 1920 census—the actual farmer is exempt from taxation. He is exempted by certain provisions in the bill whereby his buildings, his fences, his tiling, his drainage, his cost of clearing, and cost of maintenance of fertility are exempted.

Moreover, this tax is levied in such a way as to take into consideration the net capital return on his investment, and whereas Iowa farmers—and I am an Iowan, and I own an Iowa farm—whereas Iowa farmers are listed in the census as worth a certain figure, those Iowa farms will not return on the capital invested anything like sufficient money to raise their farms to the values that are given in the census.

Now, we exempted the farmer, the actual farmer, from taxation under the bill because we regarded the farm as an industry.

To tax the industry of farming is equivalent to taxing a factory or any other kind of an industry. But there are farmers that will pay a tax under this bill. There are farms in Iowa that will pay a tax under this bill. The best estimate that we can make according to the census figures of Iowa farms, and Iowa is the State of the highest land values in the Union, is that from 15 to 20 per cent of the farmers in Iowa would pay taxes under this bill.

Mr. GREEN. By reason of what provisions?

Mr. RICKER. I beg your pardon?

Mr. GREEN. By reason of what provisions?

Mr. RICKER. By reason of exemptions and values of the lands.

Mr. GREEN. When you are considering the provisions of the bill would you tax all of those who owned farms of over \$10,000 in value?

Mr. RICKER. The bill provides for a tax of 1 per cent for the privilege of holding land valued in excess of \$10,000. We have exempted the value of all improvements, fences, wells, tiling, drainage, maintenance of fertility, and we have taken into consideration the return on capital invested at the rate of 5 per cent.

Mr. HAWLEY. Suppose that a man had a farm valued under your plan at \$9,000 and that another man had a farm under your plan valued at \$11,000. One man would be exempt. Now would the other man have to pay on the entire \$11,000?

Mr. RICKER. Oh, no; he would only pay on \$1,000.

Mr. HAWLEY. He would only pay on the excess above the \$10,000?

Mr. RICKER. That is the idea.

Mr. GREEN. Suppose that one man had 40 acres of land lying up next to, or opposite a town, by reason of which it is worth \$10,000, without any improvements of any kind. He would be taxed, I suppose, and he would be taxed although he could raise no more on that farm than some other man could who was farther away from town?

Mr. RICKER. He would be taxed on his site value, he would be taxed on the site value, which constitutes value in that case, just a site value of land in the loop district in Chicago, or in the heart of New York City. The only value accruing to lands of that kind is site value.

Mr. GREEN. You would tax them on the privilege of being next to town?

Mr. RICKER. Exactly. That is a privilege, being near to town.

The CHAIRMAN. Mr. Ricker, are you representing your individual views here?

Mr. RICKER. No, sir; I am pretending, to the best of my ability, to represent the views of the Farmers Federal Tax League.

The CHAIRMAN. What authority have you to represent them, or to speak for them before this committee on this bill?

Mr. RICKER. I was commissioned by the secretary and by Mr. Nordmand to speak in his stead.

The CHAIRMAN. Do you know whether or not the organization authorized those gentlemen to authorize you to speak for them?

Mr. RICKER. Well, I think we had no vote in the committee. No, sir; only by courtesy and accommodation.

Mr. CRISP. What is the membership of your organization?

Mr. RICKER. It is not a large organization. It consists of several thousand. It is a new organization that was created last spring.

Mr. CRISP. Where do the members generally reside? What part of the country?

Mr. RICKER. In the northwestern and in the western section of the country.

Mr. GARNER. It is confined to a few States now?

Mr. RICKER. Very largely, but the membership is spread over the 48 States, but it is concentrated in the Northwestern States.

Mr. GREEN. Mostly in North Dakota?

Mr. RICKER. No, I do not know that there are any members in North Dakota. There is a large membership in Washington, and there is a considerable membership in the State of Iowa. There is a very large membership in the State of Wisconsin.

Mr. GARNER. That has for its purpose, as I understand, the promoting of a Federal tax on land, whose values exceed \$10,000?

Mr. RICKER. That is true, except that I might state that the Farmers' Federal Tax League supports Mr. Keller's entire revenue plan.

Mr. GREEN. Including the repeal of the excess-profit tax?

Mr. RICKER. Including the repeal of the excess-profit tax, on the same condition that better taxes are to be substituted therefor.

Mr. HOUGHTON. How much revenue do you expect to gain from this tax?

Mr. RICKER. Well, our statisticians have estimated that the tax ought to return a revenue of from \$800,000,000 to a billion.

Mr. HOUGHTON. I know that that is an estimate, but can you not go to the treasurers of each State to find out the values of these lands and get a pretty fair estimation of their value, and give us the figures as to how much land is left, after you take out these exemptions?

Mr. RICKER. I think that if you should undertake that job you would have a job that would last as long as you lived.

Mr. HOUGHTON. Not necessarily so.

Mr. RICKER. In the application of a tax like this——

Mr. GARNER. Did I understand you to say just now that you favored an inheritance tax, your league?

Mr. RICKER. Yes, sir.

Mr. GARNER. And you favor an income tax?

Mr. RICKER. Yes, sir.

Mr. GARNER. Do you favor increasing the present inheritance tax?

Mr. RICKER. Yes, sir.

Mr. GARNER. Do you favor increasing the present number of surtaxes as to personal incomes?

Mr. RICKER. No, but we do not desire to remove the surtaxes, the higher brackets of the surtaxes, and I may speak on that in just a moment.

I have gone over those surtaxes very carefully, the figures just given out by the Treasury Department. I find in checking them over that there were 65 people in 1919 who paid taxes on incomes in excess of \$1,000,000; there were 189 persons who paid taxes on incomes in excess of \$500,000, and——

The CHAIRMAN (interposing). Where did you get those statistics?

Mr. RICKER. They were published in the newspapers.

The CHAIRMAN. But the Treasury Department did not report last year's incomes above \$4,000,000.

Mr. RICKER. I got my figures——

Mr. FREAR (interposing). I have got the Treasury report. I could give you those figures.

The CHAIRMAN. For what year?

Mr. FREAR. This is for 1919.

The CHAIRMAN. Oh, I see.

Mr. RICKER. That is what I am speaking of, 1919. I am speaking of 1919.

But, taking the higher brackets, I have estimated that there are a few less than 12,000 people who would be affected by the reduction of the higher brackets of the surtaxes, that there are 12,000 people who paid in 1919 approximately \$1,000,000,000 in income taxes, and if the Congress reduced those surtaxes to 30 per cent you will cut off between four and five hundred million dollars of revenue which someone else must make up, by placing it on the smaller business or on the other people.

Now, we are opposed to a reduction of the surtaxes, and we say that if those who are subject to surtaxes invest their incomes in tax-exempt bonds there is some better method of curing that evil than by attempting to cause these gentlemen to invest their money in productive industry by relieving them of their tax payments when they are best able of all of the citizens of this country to pay the tax.

Mr. GARNER. Could you say what method you would use to control that exemption?

Mr. RICKER. I think the gentleman that appeared before, who first appeared, has one method by which it might be done.

I have no better method. I think that it is bad to let these gentlemen continue to invest in tax-exempt bonds, but those who have invested can keep their bonds; but I would cure it by reducing it, by reducing their necessity. I think that is very bad, very unwarranted, and a very injurious method when you take into consideration the balance of the population of the country.

Now, if I may have the permission of the chairman to insert a very short brief for the Farmers' Federal Tax League in the record, I will not impose on your time further, unless there are some questions which you desire to ask.

Mr. HAWLEY. It has been stated that if corporate normal taxes and excess-profits taxes are reduced that it will favor the corporate form of doing business as against partnerships and individual business men. What have you to say as to that?

Mr. RICKER. It undoubtedly would. Levying a higher tax on corporation incomes would favor the partnership, of course.

Mr. HAWLEY. Would be adverse to partnerships?

Mr. RICKER. How?

Mr. HAWLEY. It would be adverse to the partnership?

Mr. RICKER. Be adverse to partners—you say that a partnership is exempt from such form of taxation?

Mr. HAWLEY. I understood you to say that you favored the repeal of the corporation tax and the excess-profits tax, but no change in the normal taxes or in surtaxes on individuals, partnerships, and associations.

Mr. OLDFIELD. He did not say that he favored the repeal of the excess-profits tax.

Mr. RICKER. No; unless you substitute a better tax.

WALTER W. LIGGETT, WASHINGTON, D. C., REPRESENTING THE COMMITTEE OF MANUFACTURERS AND MERCHANTS ON FEDERAL TAXATION, OF CHICAGO, ILL.

Mr. LIGGETT. Mr. Chairman and gentlemen, I merely wish to say I am here to speak in behalf of Congressman Oscar E. Keller, who introduced the bills and who is not able to be here because of a death in his family. Mr. Keller was called back to St. Paul by a death in

his family and asked me to make a brief statement in his behalf. Mr. Keller in drawing these bills—I happen to know, because we worked together on them to a certain extent—Mr. Keller was motivated by nothing except a scientific desire to draw up tax bills which were constructive, sane, and sensible, and which would produce the needed Government revenue without being a drag or a detriment to business.

There are only, so far as I know, four time-tested principles of taxation. Those principles were devised 150 years ago by Adam Smith, the father of all economists, and although I have read a great deal of political economy I have never heard of any new basic principles of taxation being added to them. Doubtless every member of the committee is thoroughly familiar with Adam Smith's four principles of taxation, and if you will allow me to briefly refresh your memories, I will read them. Mr. Adam Smith's four principles of taxation were:

First. The subjects of every State ought to contribute to the support of the Government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State. In the observation or neglect of this maxim consists what is called equality or inequality of taxation.

Second. Taxes should be certain, not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought to be clear and plain to the contributor and to every other person.

Third. Taxes should be convenient both as to time and manner of payment.

Fourth. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State. In other words, the expense of collecting the taxes should be as low as possible and taxes should be so levied as to interfere as little as possible with the industrial activities of the Nation.

Gentlemen, those are the four and only basic principles of taxation, and Mr. Keller submits and I submit, and, I believe, every competent economist in the country will submit that the Keller program consisting of these four bills is drawn in strict conformity with these basic principles, and I also submit, gentlemen, that the revenue bill which Mr. Fordney told me the other day the committee had made up its mind to pass—

Mr. GARNER. Do you refer now to some particular bill that has been introduced?

Mr. LIGGETT. No; I refer to those rather nebulous proposals we read about in the Washington Post and the Washington Star every day, what I call inspired articles, by David Lawrence, where somebody goes down to see Secretary Mellon or Mr. Fordney or Mr. Longworth, and then we get one of these inspired vague articles. It does not directly allege anything, but gives an impression that the writer of the article has consulted with the authorities and thus speaks with authority. You get my meaning. According to these inspired statements we are going to reduce the excess profits, going to eliminate them entirely, going to eliminate the higher brackets of the individual income tax, going to raise the corporation tax; we are not going to take off or take off very few of the so-called nuisance or sales taxes; the tax on transportation is going to be retained, and then, as a final crowning perfidy, we are going to increase the rate on first-class postage. I would not say—I do not allege that the committee is going to produce such a bill. I do not know. But I do say that every member of this committee has been reading the inspired articles to that effect in the daily news-

papers of Washington the past week. You all know that, gentlemen. And I do say that the nebulous people in these inspired articles say that the committee is going to bring forth a bill that is in direct conflict with all the basic principles of taxation.

Mr. OLDFIELD. These inspired articles have convinced me that that is what they are going to do—reading from these articles.

Mr. LIGGETT. I can only say this: It seems to me very strange that witnesses who come here urging the repeal of excess-profits taxes, adding their voice to the testimony in favor of taking those taxes off of the wealthy and transferring them to the consumer are treated with the utmost courtesy and consideration, and every man who comes here for the contrary is assailed and browbeaten and has his time cut off.

The CHAIRMAN. By whom?

Mr. LIGGETT. By you.

The CHAIRMAN. That is not so. If you are here to criticize, your time has been concluded. If you are here to give this committee information we are ready to hear you. I do not browbeat anybody nor am I sitting here to be browbeaten by you.

Mr. LIGGETT. I do not want to bandy personalities and waste the committee's time.

Mr. GREENE. This committee is not run by inspired articles. Let me say about newspaper articles and newspaper correspondents that they have no authority whatever to represent this committee and they do not control or influence the committee, and the committee will do what it thinks proper after it has had the hearings and had necessary information.

Mr. LIGGETT. I tried to make it very apparent that I did not say that the committee was going to introduce this bill. I stated that the inspired articles intimated that. I made that patent.

Mr. HAWLEY. I suggest that the witness go on with his material statement.

Mr. LIGGETT. I simply wish to say that the members of the committee of the Manufacturers and Merchants on Federal Taxation, and the members of the Farmers' Federal Tax League, and a great many others—I understand a gentleman from the Democratic side said yesterday that the Federation of Labor virtually indorses these principles. I understand that is so, and that the Federation of Labor is in substantial accord with this with the exception of the repeal of the excess-profits tax.

We personally do not consider the repeal of the excess profits of such vital importance for the reason that there are not going to be any excess profits in American industry this year, or, at least, very few. But we do feel that it is a great mistake to reduce the higher taxes, the surtaxes on business. Mr. Ricker made it plain to you that that is going to benefit only a very small numerical class, and it is going to throw a great financial burden upon a large class of American producing business men. We feel that is wrong, and Mr. Keller drew these measures not as a partisan but as an American who was really interested in getting a sane, scientific tax program before the American people. He did not do it for political effect, because I tell you it takes a great deal of courage to draw those bills. Many of them are rather innovations so far as our American system of raising revenue is concerned. It took courage to introduce those bills and he had

nothing to gain by it politically, but Mr. Keller did introduce those bills as a sound, sane, scientific, constructive program before the American people.

Mr. GREENE. Outside of the few people that you represent, do you know of any of the great leaders of the country, great economists, that indorse this proposition?

Mr. LIGGETT. Yes, sir; if the committee wants, I can get you a book thick with the opinions of the best known economists of the United States, and submit it to you.

Mr. CHANDLER. Where can you get such a book?

Mr. LIGGETT. I said I could make up a book with quotations from well known economists, men who have no peers in this country or any other country on that proposition.

Mr. HOUGHTON. You want that we should tax on the ability to pay rather than on the ability to spend it?

Mr. LIGGETT. Obviously; not only the ability to pay, but as Adam Smith said, the protection which the Government grants the individual, or, in other words, the privilege which you enjoy.

Mr. HOUGHTON. I was not looking at it from the point of view of the individual, but from the point of view of the State. Which renders the greatest service to the State, the man that saves and puts his money into a productive investment or the man who spends his money freely in unproductive ways?

Mr. LIGGETT. I think the question would have to be broadly defined. It is vague.

Mr. HOUGHTON. I am stating it broadly. The question is simple enough. Would you put a tax on a man who by saving increases the total funds of investment money in the country and so develops business, industry, and farming, or would you put the burden on the man who spends it on flowers, in yachting, and a thousand and one ways that do not produce a permanent increase of revenue. Adam Smith pointed out 150 years ago the difference between productive investments or consumption and unproductive investments. I am asking you to devote yourself to that precise point, whether it is best to tax the man who puts his money into productive investments or consumption or the man who puts his money into unproductive investments or consumption?

Mr. LIGGETT. As you state the question there is no argument about it. It is better to tax the man who puts his money into unproductive things; there is no question about it. That is precisely what the Keller bill intends. One of the gentlemen over here asked me approximately how much revenue would be elicited by the Keller bill.

Mr. CHANDLER. That was not my question at all. I asked the other gentleman here a few moments ago how much land there was over and above the exemptions provided for, in the United States. You then made the statement there that you had figures. I would like to have them.

Mr. GREENE. The last gentleman answered that it would take several years to find out.

Mr. CHANDLER. Yes, but this gentleman in the audience said he had the figures, and I would like to have them.

Mr. LIGGETT. I will be very glad to give the estimates.

Mr. CHANDLER. I do not want estimates; I want figures. I do not want any estimates. I can go out here and make estimates on anything. I want figures, on the assessed value of this land over and above the \$10,000.

Mr. LIGGETT. Let me conclude my statement and I will show you; approximately, I will show you.

Mr. CHANDLER. No; I want the figures.

Mr. FREAR. There is no man that has appeared before this committee that can give us precise figures. They all begin with estimates.

Mr. LIGGETT. I think that I can give you an estimate which very closely approximates the facts.

Mr. FREAR. That is as much as any man who has appeared before this committee could give.

Mr. LIGGETT. That is as much as any man can give.

Mr. CHANDLER. You made the statement while in the audience that you had the figures.

Mr. LIGGETT. I will give you the figure as far as we can get them.

Mr. CHANDLER. I do not want estimates, I want figures.

Mr. LIGGETT. These estimates are based on the last census.

Mr. CHANDLER. I do not want estimates. Anybody can make estimates. I want figures. I can make estimates myself. I can prepare a book full based on something.

Mr. FREAR. Will you give the rest of the committee the benefit of your estimates if they are there?

Mr. LIGGETT. The estimates based on the last census report show that the land values and industrial values in the United States each aggregated about \$140,000,000,000, that industry pays a total tax of more than \$4,000,000,000 annually, and that land values only pay a total of \$600,000,000 derived in the form of transfer taxes and income taxes, derived from rents and profits of sales and resales of realty. I am quoting directly; it gives the figures. Excluding agricultural lands in actual use—unproductive farm and tax values—the total worth of the land values in the United States is approximately \$108,000,000,000.

Mr. GREENE. That is the total of productive farms?

Mr. LIGGETT. Yes, sir; outside of all farm values.

Mr. GREENE. Outside of timber lands? Have you gone over the Western country and know how much land there is there where it is worth anything?

Mr. LIGGETT. I was born in the West and have been through every State in the West. I think I know a great deal about it.

The CHAIRMAN. The total value of all property, real and personal, 10 years ago was \$180,000,000,000.

Mr. LIGGETT. That is precisely what I say, that these estimates are based on the increased values, taking the last census. I admit that it is estimate.

The CHAIRMAN. You are excluding everything except land values above a certain amount, \$10,000?

Mr. LIGGETT. I do not think you get me on that point.

Mr. CHANDLER. That is what you want to exclude, everything, and take the land values over and above \$10,000. That is what we are trying to get.

Mr. LIGGETT. Let me say that \$45,000,000,000 of this amount consists of land which has iron, copper, zinc, gold, silver, marble, granite, and so forth.

Mr. CHANDLER. That is just imagination. Has it ever been appraised? Is it on the tax rolls?

Mr. FREAR. Instead of getting into an argument, can not you give us the figures to show it so that the committee can have it in the record?

Mr. CHANDLER. That is already in the record.

Mr. LIGGETT. \$45,000,000,000 of this amount consists of land which has iron, copper, lead, zinc, coal, marble, granite, etc.; \$40,000,000,000 of it consists of city, town, and suburban lots; about \$12,000,000,000 consists of franchises, pipelines, stockyards, railroad rights of way, terminals, and Government land grants; about \$8,000,000,000 consists of timber rights and timber lands, and about \$3,000,000,000 are in the form of water powers, fishing grounds, harbors, and water fronts.

Mr. FREAR. Where did you get those figures?

Mr. LIGGETT. Those figures were made up by Mr. Emil O. Jorgensen, a very well-known statistician.

Mr. FREAR. From what?

Mr. LIGGETT. He based them on the 1910 census and made his estimates to include the increased valuation.

Mr. GREENE. Who made those figures as to the amount of taxes paid by owners of those lands?

Mr. LIGGETT. I do not know that I made myself clear on that.

Mr. GREENE. You said so much was paid by industry and manufacturing in taxes. Who made those figures?

Mr. LIGGETT. A number of gentlemen collaborated in these figures and we all arrived at approximately the same estimate. There was Mr. Jorgensen and Mr. Ralston, and I was one.

The CHAIRMAN. If you will be kind enough to file your brief, we will hear Mr. Graham, of Illinois.

Mr. GREENE. When you file your brief, point out the names of those gentlemen who indorse this proposition, prominent economists, because I have read every article I can get my hands on; I have not found any of them who indorsed it.

Mr. HADLEY. What did you read from?

Mr. LIGGETT. This is the Congressional Record that I read from. The supplemental figures which Mr. Greene wants, I will file them, also 10 or 15 letters from prominent and well-known men all over the United States, written to Mr. Keller entirely indorsing his program.

The CHAIRMAN. I thank you.

Mr. RICKER. Will you allow me to correct a false impression that appears from this gentleman's question and my reply to it because I do not like to be put into the record as an ignoramus. The gentleman asked me for certain figures.

The CHAIRMAN. What is your statement, briefly?

Mr. RICKER. This gentleman, Mr. Chandler, asked me a question and in referring to it later he evidently misunderstood me, because he misquoted me. He asked me for certain figures about land values and my intent was to reply that by the method he specified I did not know how land values could be arrived at. It can not be done. They will be estimates.

BRIEF OF WALTER W. LIGGETT, WASHINGTON, D. C.

We appear before you as executives and members of the committee of manufacturers and merchants on Federal taxation. Our organization was started early in 1920 by a group of manufacturers who constituted themselves a committee and began to appeal to other manufacturers and to business men generally, to join together as a committee of business men for the purpose of creating a Nation-wide movement favoring the reduction of the Federal taxes on business and industry.

Our efforts thus far have resulted in a membership of over 31,000 business men, manufacturers, jobbers, and merchants. This membership is spread throughout the 48 States. We have printed and distributed several million pieces of literature dealing with the subject of Federal taxation.

We have cooperated in the introducing of two bills into the House of Representatives. Our first bill was introduced into the Sixty-sixth Congress by Hon. John I. Nolan, of California. This bill provided for a tax on the privilege of holding land valued in excess of \$10,000 after exempting all improvements. We estimated that such a tax would raise approximately \$1,000,000 and permit a reduction in the taxes on business and industry to a corresponding amount. The larger part of our membership was secured in support of this bill.

We have cooperated with Congressman Oscar E. Keller, of Minnesota, in the introduction of four bills into the Congress now in session. These bills are before your committee and we appear before you at this time to make a plea for their consideration and to present a brief setting forth our reasons therefor.

We are interested primarily in the reduction of taxes on business and industry. Our contention is that taxes levied on business and industry tend to depress business by decreasing purchasing power and reducing the volume of trade. We contend that this inevitable effect takes place from such methods of taxation, whether the taxes are levied at the point of production or at the point of consumption. Taxes levied on imports on manufacturing or on the processes of the exchange of goods, are inevitably added to the overhead costs of doing business or directly to the price of goods, and these taxes are passed on and paid by the ultimate consumer.

Purchasing power of the consumer is limited to income. Taxes so levied as to fall on the consumer, cut down the purchasing power of the consumer to the extent of the taxes paid plus whatever additional sums are added in the process of transferring the tax.

Taxes levied on business, while passed on to the consumer as necessary overhead, are inevitably passed back again in the form of reduced orders. There is no way by which business may in reality transfer the tax. Taxes on business are taken out of the volume of business, something so self-evident that it would seem no further argument is needed on this point.

Taxes levied on business and industry would manifest no visible destructive effects while the taxes were light and inconsequential. We are a nation possessing vast wealth. The cost of the Federal Government and the cost of State and local governments had, in the ordinary periods of our history, prior to the year, 1917, presented no problem of serious proportions. We maintained a small Army and a relatively small Navy. We were engaged in no governmental undertakings requiring the use of large sums of money. We were happily free from bureaucratic oversight of business activities. We were a people of strong individualistic proclivities, holding fast to the principles of the founders of our Republic and believing with them that people who are governed least are governed best.

The great World War completely changed our status as a nation and our scheme of government. Suddenly we became involved in the raising of an immense army, supplying this army with equipment, transportation to Europe, and providing for its provisioning. Almost overnight we found ourselves spending money on a colossal scale, so that by the time we had finished our contribution to the preservation of democratic institutions, we had spent a total sum of money variously estimated at from twenty-five to forty billions of dollars. We loaned our allies ten billions of dollars directly from public funds and almost as much from private trade channels. We found ourselves also under the control of Government bureaus, reaching into and regulating the private affairs of our citizens. We enacted national prohibition. We added vast costs to the Government incidental to the regulation of industry and the enforcement of law. We dried up or abolished sources of revenue which previously had performed the major part in the raising of our Federal taxes. We cut off our income from the manufacture and sale of liquor and added a huge cost burden for the enforcement of prohibition. Our foreign trade is steadily decreasing because we have exhausted the purchasing capacity of our customers. Having set up tariff barriers against imports, the tariff revenue will play a very insignificant part in supplying our Federal budget with revenue.

We are confronted therefore, with a tax problem altogether new to our people. We must raise billions of dollars of revenue from internal taxation. What are our budget requirements for the fiscal year beginning July 1, 1921, and ending June 30, 1922? No one is able to say definitely because no one knows what Congress will appropriate within that period. Some definite facts are, however, known.

Although the specific sum required by the Government for the fiscal year may not be absolutely stated, we know that it will be between four and six billions of dollars. This is a sum, which, if apportioned to heads of families amounts approximately to \$250 each. In other words, if every head of a family were called upon to pay an equal division of the Federal tax budget and required to walk up to a tax window, some place in the Nation, to pay his or her share of the Federal tax, it would require the finding of \$250. If to the Federal we were to add the State and local taxes the sum would grow to perhaps \$400. Now, we all know that the imposing of such a tax on the heads of families would mean that the tax could not be raised for there are some millions of heads of families who could not pay such a sum.

And yet, gentlemen, if press reports are reliable, you are preparing to so levy the Federal taxes as to make them fall for the most part on the consumers. We as manufacturers and merchants become vitally interested at this point because these consumers are our customers. If you absorb the purchasing power of the consumer by taxation, the consumer will have little left with which to purchase our manufactured goods. Our business will continue to suffer as it is now suffering, for we are here to tell you that the output of our factories is now on a basis of 50 per cent of our 1914 normal. In many instances our members report to us by letter that their factories are closed down and not operating at all. In other cases operation is carried on under the direction of banks which finding it impossible to collect on credits extended have had to take indirect charge of the business.

Our study of business conditions has convinced us that our method of raising Federal taxes is in major part responsible for the widespread and ominous business depression. In uttering this statement we make due allowance for other influences and for world conditions. However, our normal ability to consume in this Nation is so great that if some extraneous thing were not blocking the wheels of industry we could now be producing and exchanging goods between the citizens of the 48 States to a degree that would employ substantially all of our labor and all of our capital. It is our settled conviction that Federal taxes constitute the extraneous thing which has intervened to halt our business activities and depress manufacturing. We shall state our reasons for this belief as we proceed with this statement. We desire at this point to call your attention to Mr. Keller's revenue bills which have been referred to you and are now before your committee.

The first one of these bills (H. R. 6767) repeals something like 40 excise taxes now on the Federal statute books. We ask for the repeal of the laws authorizing these taxes, because they are all taxes on business and industry. Let us take as most important of all the transportation tax. Railroad rates are now so high as to serve as trade barriers between the States in the interchange of commodities. We cite the experience of one of our members who is engaged in the furniture business, operating a chain of stores in three of our western States. This gentleman recently informed us that railroad rates were so high as to prevent the use of furniture made from the cheaper lumber of the South. He states that he can actually sell furniture made from the hardwood material nearer his stores more cheaply than furniture made from the lower priced southern wood. Railroad rates, therefore, amount to an embargo on traffic between the States. It is estimated that increased transportation rates over those prevailing in the prewar period has moved the corn and wheat growers to what is the equivalent of a thousand miles back from their market. Farmers during the current year and the latter half of 1920, in many sections of the country, have shipped produce to market the proceeds of which have not been sufficient to pay freight and commission charges, and yet in the face of these facts Congress has actually imposed taxes on passenger and freight costs, thereby adding additional straws to a camel's back already at the breaking point. We submit to you that such legislation is not the act of wise statesmen. We ask at your hands that all taxes on passenger and freight traffic be removed. If we may secure this one act of justice and equity, we shall consider that our effort as an organization has paid a dividend on the energy and means contributed by our members.

Railroad officials estimate that passenger and freight taxes this year will amount to \$268,000,000. Here is a tax levied directly on business and taken out of the purchasing power of the masses of the people. The removal of this tax means that the people will have an additional \$268,000,000 to spend at the stores and this also means that the railroads will carry additional traffic to the extent of the sum involved. And so we might go down through the various tax makeshifts, called "sales taxes" which Congress in its haste to provide revenue has levied on the processes of business. The theory on which

such levies have been made is that consumption taxes distribute the tax burden. It does nothing of the kind. It confines the raising of revenue to the limits of business and industry. These taxes are a direct deterrent to production because production is directly dependent on consumption. We have asked for the repeal of all the excise taxes except those which are placed on oleomargarine, tobacco, alcohol, and products of child labor. We understand that your committee is proposing to levy new excise taxes and that you are considering adding a tax on automobiles. We desire to protest against such methods of raising taxes. With reference to a tax on automobiles, we submit that such a tax is inexcusable. This is a motor age. Vast capital is invested in the motor industry. People are using or will use motor transportation in increasing volume. Motor transportation has ceased to be a luxury. It has become a necessity. To levy a tax on automobiles will have the effect of depressing the industry and inconveniencing the public. We do not want more sales taxes. We want less sales taxes.

We come now to the excess profits tax where doubtless we are in agreement with most of you in asking for its repeal. This tax has led to extravagance and waste. In the end, it is a tax on business and industry which is added to the item of cost and forms one of the excuses for profiteering.

We have asked for the repeal of the corporation income tax. It appears from press reports that you are not in agreement with us on this point, because it seems you are disposed to increase rather than repeal this tax. The corporation income tax is added to overhead and passed on to consumers and then passed back to corporations in the form of decreased volume of goods ordered. It is a tax on business.

We come now to Mr. Keller's second bill, H. R. 6768, which amends the income tax law so as to distinguish between "earned" and "unearned" income. We desire to say that this bill represents Mr. Keller's views rather than that of our organization. We have included this bill in our literature in order that our members might study its features. It involves a distinction in the source from which incomes are derived that is worthy of consideration. It is our understanding that your committee favors a reduction in the higher brackets of the surtaxes. It has been reported that your revenue bill will provide for a reduction of the surtaxes so as to make the highest tax levy on income around 30 per cent. We are unable to agree with you that such reduction is desirable or that it will be beneficial. From reports recently issued by the Treasury Department, we note that in 1919 a total of 65 persons paid taxes on incomes of \$1,000,000 or more. That 189 persons paid taxes on incomes ranging from \$500,000 to \$1,000,000; that 1,864 persons paid taxes on incomes ranging from \$300,000 to \$500,000; 2,983 persons paid taxes on incomes ranging from \$150,000 to \$300,000. On incomes ranging from \$50,000 to \$100,000 a total of 13,320 persons paid taxes. The surtax rate on incomes of \$54,000 is 26 per cent, while the tax rate on incomes of \$98,000 is 48 per cent. Assuming that the average of such incomes would range around 30 per cent, we may divide the figures 13,320 by 2, because it is fair to assume that relatively more individuals pay income taxes on incomes between \$50,000 and \$60,000 than there are individuals who pay income taxes on incomes between \$60,000 and \$100,000. One-half of 13,320 is 6,660; by adding 6,660 to those numbers, which represent individuals who pay taxes on incomes above \$100,000, we find the total number of individuals affected by the removal of the higher surtaxes to be 11,761.

Now, this assumes, of course, that there are as many individuals receiving incomes above \$60,000 per year as there were in 1919. The proposal to reduce the surtaxes on the incomes of 11,761 people, therefore, resolves itself into the extension of special favors to a numerically small class of American citizens abundantly able to pay to support the Government. The total income taxes which these 11,761 individuals have been paying probably aggregate nearly \$1,000,000,000. If the income taxes of these individuals is cut in half, this means that the Government will have to raise from \$400,000,000 to \$500,000,000 from other sources. Manufacturers, merchants, and jobbers of the Nation, with rare exceptions here and there, are not affected by the higher surtaxes. If they have been so affected in previous years, they are not now. Manufacturers of the type who are before you, who are engaged in competitive business, are not earning dividends of a character to be affected by the surtaxes. Industries like the Oil Trust or other large units, virtually monopolies, may be affected, but not the rank and file of American business men. We know that if you reduce the taxes on large incomes by \$500,000,000 you will raise those taxes in some other way, and if you pursue existing methods of taxation, then we know the burden will fall on us and on our customers. We submit that this is not only unjust but economically unsound, and whatever may be said of Mr. Keller's proposal to leave the tax on unearned income as it is now administered and reduce the tax on earned income one-half, it must be conceded that it is far more sound and beneficial to business in particular and the country as a whole than the proposal to remove the higher surtaxes. It is urged that the higher surtaxes are driving capital investment into tax-exempt bonds

If such be the case, the remedy lies not in some measure calculated to coax big business to invest its surplus earnings in productive industry, but rather a measure which will stop the issue of tax-exempt bonds so far as the exemption relates to Federal taxes.

Mr. Keller's third bill (H. R. 6769) amends the inheritance tax by (a) lowering the exemptions to cover estates of \$20,000, (b) raising and steeply graduating the tax rate, so that when the point of \$100,000,000 is reached as applied under the law the rate is 75 per cent.

This bill, like the amendment to the income tax law, was not proposed by our organization. We have included it in our program and recommended its consideration to our membership. Possibly the higher rates proposed by Mr. Keller are excessive. We think the bill might be strengthened by making the higher rate apply only to that part of the estate which consists of tax-exempt bonds and of unused natural resources. This will check investment in tax-exempt securities and speculation in idle land. Sponsors of our organization hold to the view that there are better sources of revenue than incomes and inheritances, but we also hold to the opinion that in the shifting of taxes from one form of property to another form, drastic changes are undesirable, and therefore we recommend an increase in the inheritance tax along lines proposed in the Keller inheritance tax bill.

The question now arises: "If we do not tax business and industry, what shall we tax?" This brings us to fundamentals. Alexander Hamilton once said in delivering an opinion on taxation, "We must either tax land or commerce." Commerce is a synonym for business. So we say that in levying Federal taxes or any taxes for that matter, the choice must lie between land and business, because there is nothing else to tax. If you tax goods, corporations, incomes or inheritances, you are taxing business. The only difference between these various items is that a tax on income constitutes a less injurious form of taxation, if rightly levied, than taxes on goods, sales or corporations.

Our organization is committed to the taxation of land values. There is no good reason, in our opinion, why our Federal Government should seek to create a privileged class of landowners by exempting this class from taxation and, because of this immunity, be forced to levy crushing taxes on business and industry. The direct effect of this discrimination between land and industry, and in favor of land, has been to increase land values at the expense of industry. Land values are swollen to such huge proportions as to separate the mass of the people from the use and occupancy of the land. By exempting landholding from taxes and placing the burden on business and industry, we have reached the point where productive industry is at a standstill. Profits are absorbed in taxes and business initiative is destroyed.

No one is able to compute in figures even the book values of what we call the property of the American people. One economist has recently said that our total national wealth amounts to approximately three hundred billions of dollars. Mr. McAdoo, while Secretary of the Treasury, estimated our total national wealth at two hundred and forty billions.

But what we do know is that as nearly as such values may be computed, land values and industrial values are approximately equal. If our national wealth may be stated, as we have it in our literature, at \$280,000,000,000 one-half of the sum, or \$140,000,000,000 is comprised in land values, and over \$140,000,000,000 in industrial values. Now, let us analyze these values, which, as we have just said, are equal to each other. The industrial values are created values, that is, such values are the result of the application of capital and labor to land and the resources of land. Land values, on the contrary, are not created values, but social values. Land values are the result of community development, growth of population and location with reference to commerce and trade. This vast dominion which we call the United States, on the day that the first European looked at it, had no value in terms of money whatever. The whole island of Manhattan was sold for a string of beads. Land acquires no price value until population and civilization enter as factors.

Now, no sound economic reason may be advanced why industrial values should be taxed and land values go untaxed.

It does not require an economic understanding to arrive at the conclusion that such discrimination is unjust. But viewed from the standpoint of political economy, there are weighty reasons why the holding of land should be taxed not merely on an equality with business and industry, but to a much greater extent.

Land is the only thing, the use of which is stimulated by taxation. Tax business too heavily and business ceases because unprofitable. Tax land values and the land must be used to provide the tax. If the owner is unwilling to use the land, the necessity of paying the taxes induces him to part with it to some one who will use it. The land is thus brought into its highest use and in the use of the land capital and labor

are both employed and wealth is created. Land values are in reality not wealth at all. In fact swollen land values prevent wealth from being created, because the land gets out of reach of those who need it and would use it if they could.

Tax land values adequately and those values will be held in check. What may be called "speculative land values" will disappear. It will no longer be profitable to hold land out of use waiting for pressure of population to enhance its value.

Our housing and construction problem, the problem of high transportation costs, may be solved by scientific taxation. As a matter of fact, these problems may be solved in no other way. We have levied taxes on business and industry to such an extent that we have multiplied costs and prices of lumber, steel, cement, brick, stone, tin, window glass, paint and a long list of commodities which enter into the building and upkeep of railroads and of construction work generally. We have increased the cost of these commodities by our method of taxation. On the other hand, we have permitted land values to go untaxed so far as the Federal Government is concerned, so that parcels of land in all of our cities are held at exorbitant prices. We have multiplied business costs on the one hand by over-taxation and encouraged the inflation of land values on the other, by under-taxation, so that we have created a wide gulf between our need for construction and our ability to construct. Lower the taxes on business and industry, increase them on land values and the gulf will be narrowed. Continue this process judiciously and the gap will be closed entirely. Housing and construction work so badly needed in this Nation, if encouraged, would start the wheels of industry immediately.

The price of rent would fall when construction work started, and this would permit of an adjustment of wages. Excessive rent in our cities stands like a stone wall in the way of lowered living costs and lowered labor costs. New York City presents an example of the effect of removing the taxes on buildings. Early in this year the New York City Council enacted an ordinance providing for the exemption from taxation of new buildings of a certain specified character, covering a period of 10 years. Almost immediately building commenced and New York is practically the only city in the Nation which has shown an increase in building contracts for the current year. Of course, if you take taxes off improvements, you must increase taxes on land values, for if you untax business you must tax the privilege of holding land. There is nothing else to tax.

Mr. Keller's fourth bill (H. R. 6773) provides for a tax of 1 per cent on the privilege of holding land after exempting \$10,000 in land values to each individual landholder and after exempting all improvements. This bill is so drawn as to exclude from taxation practically all of the actual farmers. We exclude actual farmers because farming is essentially an industry. The profits from farming are small. If we were to tax land values so as to make the burden fall on farmers, the effect would be as disastrous as to tax a factory or any other industry. Farms which have large value because of location or because of size of area will be subject to tax under our bill. Such values and such farms ought to be taxed. But generally speaking, what is known as the average farm in America will pay no tax under our bill. The bulk of our land values is not found in farms, but in cities and in land containing timber and minerals. In our large cities large areas of land, when taken in the aggregate, are held out of use. Billions of dollars' worth of land containing valuable deposits of coal, oil, and minerals are held out of use and may be held out of use because such values are not adequately taxed.

The imposition of a tax of 1 per cent on such values will not only raise revenue and permit by so much a reduction of the tax burden on business and industry, but the tendency of such taxation will be to force idle land into use which in turn will create new business, employ labor and capital, and vitally stimulate industry throughout its manifold ramifications. A tax of 1 per cent is very light. It may be applied without materially disturbing values, and the rate may be gradually increased until the desired end is attained.

We present to you, therefore, and to the Congress a method of taxation fundamentally just and economically sound. Our organization has prepared and printed very considerable literature covering this specific subject. This literature is available for your use. We do not expect this discussion to end here, nor do we expect that our organization will come to an end when the Congress shall have enacted a new revenue law. On the contrary, we expect to increase our efforts, for, if we are correctly informed by press reports, it is the purpose of the administration (and by that we mean the Congress) to enact a revenue bill which, however with good intent, will not relieve business and industry at all.

E. F. McGRADY, WASHINGTON, D. C., REPRESENTING THE AMERICAN FEDERATION OF LABOR.

The CHAIRMAN. Mr. McGrady, you represent the American Federation of Labor?

Mr. McGRADY. Yes, sir.

The CHAIRMAN. And you reside in the city of Washington, is that right?

Mr. McGRADY. Yes, sir.

Mr. Chairman and members of the committee, I have a set of resolutions here that were adopted by the American Federation of Labor at their last convention, held in June.

I will leave them for the record. I will not read them, but I will discuss them briefly. They show, in fact, that the American Federation of Labor is in favor of retaining the excess-profits tax.

We are in favor of retaining the income tax, and I am not going to discuss the sales tax, inasmuch as that matter is probably settled.

I do not suppose that there has ever been a time in the history of our organization when the workingmen of America are thinking more about taxation than they are just now. We have received at our headquarters here in Washington thousands of letters from all over the United States, and it seems to be the one trend of thought in the minds of our men that the wealthy people of the country and the big corporations seem desirous to get from under the tremendous load that this country has got to carry in taxes, and we feel that they are trying to shift that burden onto somebody else, who perhaps is less able to bear it, and for that reason we are in favor of the excess-profits tax staying where it is.

We have heard numbers of business men say that the excess-profits tax will eventually have to be carried by the consumer. We are the large consumers, and yet we are not objecting to the excess-profits tax. If the wealthy men of this country and the big corporations are offering this as an excuse to rescind this tax, or to reduce it on our account, we want to tell them that they are not speaking for us and that we are perfectly satisfied.

We believe, also, Mr. Chairman, that if you have to raise more revenue that it might be well to raise it by increasing the inheritance tax.

We also believe that you might well consider the advisability of placing a tax upon land values, undeveloped property held for speculative purposes, and natural resources.

We believe that those are two methods that this Government can raise additional money from.

Mr. GARNER. How would you levy the taxes or raise money under those items; what provision under the Constitution would you raise it?

Mr. McGRADY. Well, I will say this: Our people have discussed this proposition and our men feel that a tax should be placed upon land values of \$10,000 or more, not to include improvements on the land. That proposition was not only indorsed by the men who work in the shops and in the mills, but it was also indorsed by the farmers' organizations.

Mr. GARNER. I am not asking you particularly about the advisability of it. I am asking you for the authority to levy. Congress

must have authority to levy taxes, and we can not levy direct taxes on land under the present Constitution.

Mr. McGRADY. Well, Mr. Chairman, I would like to know if it is not possible for Congress to get that authority.

Mr. GARNER. Oh, if you could get an amendment to the Constitution you could do it, or you could apportion that among the States, but you would have to do that, and you could not levy it directly on the land.

Mr. McGRADY. Well, we believe if that is the only way we can get a tax on land values we believe that ought to be done.

Mr. YOUNG. Do you mean to say that the farmers favor a proposition of that kind?

Mr. McGRADY. I desire to say that the representatives of the farm organizations did.

Mr. YOUNG. What ones?

Mr. McGRADY. Well, they sent their delegates to our convention. I can not recall the names of the organizations. I could get them for you and insert them in the record.

Mr. YOUNG. I wish you would. I would be very glad if you will get the names of those delegates, and more particularly their organizations. You say that they represented farm organizations and that they believe in a tax of that kind?

Mr. McGRADY. Yes; I believe that it is correct that they do.

Mr. YOUNG. Do you think that you will be able to get them?

Mr. McGRADY. I think that I will, because it was debated quite lengthily, and it was a farmer who pointed out that the average farmer's land is worth less than \$10,000, not including improvements on land.

Mr. YOUNG. But do you not know that any bill that gets before Congress which proposes to tax farm values of not less than \$10,000 may be amended before it gets through to apply to farms worth \$1,000 or \$2,000, and that the farmers of this country would be taking a big chance if they get back of legislation of this kind, because it might be amended to include every farm in the country?

Mr. McGRADY. That may be possible, but I would hate to be the man that offered such a bill; if I were a Member of Congress, I would hesitate to be the one man who did it, because I believe that it would bring down the wrath of the poor farmers, the hardest working farmers we have got in America.

The CHAIRMAN. Mr. McGrady, you say that the farmer is in favor or has suggested that we tax land values on farms worth more than \$10,000, but he is not in favor of the tax upon his farm. In other words, he wants to tax the other fellow. Is that what I understand?

Mr. McGRADY. Mr. Chairman, I want to make it clear. I said this: That evidence was brought to our attention that the average farmer in America, the land value of his farm is not more than \$10,000. That does not include the improvements.

The CHAIRMAN. And the reason for that is that they would like to have the other man pay the tax?

Mr. McGRADY. Mr. Chairman, I believe that very few people realize the tremendous extent to which the land of America is monopolized by a few individuals or corporations and held vacant for speculative purposes. According to a recent Government report, viz., the Lumber Industry, Government Printing Office, 1914, part 2, 265

holders of land in Arkansas own 3,318,000 acres; in Colorado, 14 holders of land own 3,355,000 acres; in New Mexico, the Holland Land Co. has 4,500,000 acres; in Texas, one man living in Chicago holds title to 3,000,000 acres; in Kern County, Calif., the Kern County Land Co. owns 391,497 acres; the Northern Pacific, the Southern Pacific, and the Santa Fe still own undeveloped a total of 33,493,000 acres of land; in Louisiana, 270 holders control 5,315,000 acres; in Michigan, 136 holders control 6,495,000 acres; and in Florida, 290 holders control 18,949,000 acres.

Those figures are rather alarming to us.

Mr. YOUNG. That is the old Henry George proposition, I understand?

Mr. McGRADY. I do not know about that. Henry George was before my time.

Mr. YOUNG. It sounds a whole lot like it.

Mr. OLDFIELD. Let me ask you just one question: In answer to Mr. Fordney, the farmers of the country feel like if the excess profit tax is repealed, a burden which they are unable to bear will be shifted to them?

Mr. McGRADY. That is the feeling not only of the farmer, but of the average wage earner throughout America. That is the feeling of the average working man.

That is all, Mr. Chairman.

Mr. CHANDLER. Did I understand you to say that your organization was in favor of a tax on undeveloped natural resources?

Mr. McGRADY. Yes; when held for speculation.

Mr. CHANDLER. How would you do that?

Mr. McGRADY. Well, I would put on a tax of 1 per cent—

Mr. CHANDLER. Well, what would you consider undeveloped natural resources?

Mr. McGRADY. I consider large tracts of land with natural resources, being held by individuals or corporations for speculative purposes alone.

RECOMMENDATIONS OF THE EXECUTIVE COUNCIL OF THE AMERICAN FEDERATION OF LABOR AND THE ACTION OF THE ANNUAL CONVENTION OF THE AMERICAN FEDERATION OF LABOR HELD IN DENVER JUNE 13, 1921.

We recommend the following:

1. That the American Federation of Labor insist on the retention of the excess-profits tax.
2. Every effort should be made to defeat proposals for new taxes, as all the money we need can be obtained from the present taxes under efficient administration. In fact, the best authorities declare that if we remodel our tax system on the basis of readjusting rates and improving the administration and assessment of taxes we can secure greater revenues than we do at present.
3. Nothing should be left undone to defeat the introduction of a turnover consumption or sales tax. The excess-profits tax carried us through the war and in time of peace it will be as valuable an aid when properly administered.

EXCESS PROFITS AND TURNOVER SALES.

The committee reported on that portion of the report of the executive council under the above caption and upon the following resolution:

Whereas, the concentration of wealth and income in our country has reached a point which constitutes a menace to our national institutions, as 23,000 millionaires own over 27 per cent of the national wealth and the 33 richest people of America own nearly 2 per cent of the national wealth; and

"Whereas, this concentration of property and wealth is proceeding rapidly and the owners thereof are not compelled to pay their fair share of the costs of the war and of current Government expenditures; and

"Whereas, these wealthy people and the monopolists and financial interests generally are seeking to repeal existing laws taxing such concentrated wealth, and to reduce the amount of taxes which this wealth must pay and are advocating a sales tax or consumption tax to raise at least \$2,000,000,000 a year most of which will be paid by the workers of America in the factories, mines, transportation, trade and on the farms, and to secure the repeal of the excess profits tax: Therefore, be it

"*Resolved*, That the American Federation of Labor in convention assembled declares against the imposition of a retail or general sales tax or turnover tax, or any other tax on consumption, and opposes the repeal of the excess-profits tax, and demands that the highest rate of taxation levied during the war upon incomes and excess profits be retained until the full money cost of the war has been paid, and further demands that the Government promptly levy a rapidly progressive tax upon large estates and a moderate tax upon the value of land and other natural resources speculatively held in order that the national debt may be promptly retired; and

"*Resolved*, That we instruct the officers of the American Federation of Labor to exert their utmost efforts and use every proper means to secure the enactment by Congress of legislation to carry out this program for raising our needed national revenue."

The committee considered this section of the executive council's report and resolution No. 50 together, since they deal with the same subject matter. The committee is in complete accord with the position of the executive council on the justice and necessity of retaining the excess-profits tax and defeating the sales tax. There can be little doubt that the outcry in interested quarters against the excess-profits tax is primarily caused by the salutary fact that that tax is one of the few that can not easily be shifted to the consumer, while the turnover sales tax is an amazingly brazen attempt to pile up on the consuming masses a share of the burden of taxation greatly disproportionate to their ability to pay.

The committee therefore concurs in the recommendation of the executive council that the American Federation of Labor insist upon the retention of the excess-profits tax, and leave nothing undone to defeat the enactment of a turnover, consumption, or sales tax. The committee also agrees with the proponents of resolution No. 50 that the Government shall "promptly levy a rapidly progressive tax upon large estates and a moderate tax upon the value of land and other resources speculatively held in order that the national debt may be promptly retired." The committee therefore concurs in resolution No. 50.

The report of the committee was adopted unanimously.

BRUCE BOWE, OF RICHMOND, VA.

The CHAIRMAN. You represent the National Real Estate Association of Richmond, Va; is that right?

Mr. BOWE. Yes, sir; I am a member of the national legislative committee of the National Association of Real Estate Boards, composed of 20,000 realtors in the United States, and I would like to read to you our resolutions which were recently passed at the convention held in Chicago on July 15. I would like to get them into the record.

The CHAIRMAN. Proceed.

Mr. BOWE. They are as follows:

INTERNAL-REVENUE TAX LEGISLATION.

Be it resolved, By the National Association of Real Estate Boards in convention assembled July 15, 1921, at Chicago, Ill., that we earnestly appeal to Congress:

To deny serious consideration of the Keller bills, which is an attempt to tax the right to use, own, and occupy land and natural resources in units of \$10,000 and over, for Federal uses, contrary to fiscal policy of this Nation, real estate bearing the burden of State and local taxation;

For changes to relieve the profits on the sale of real estate from the operation of the income tax in lump sums since March 1, 1913, if not to the extent of elimination, then

at least to the extent of distribution of the profits over several years during which the profits have accrued. The present law blocks large real estate transactions and we believe yields less revenue to the Government than would this modification.

NET LOSS OF PRECEDING YEAR.

HON. GUY A. HARDY, A REPRESENTATIVE IN CONGRESS FROM COLORADO.

Mr. HARDY. Mr. Chairman and gentlemen of the committee, some time in your deliberations you will take up the question of the consideration of the reenactment of section 204, which relates to the spreading of the net loss in any business over the year preceding and the year following. I do not intend to discuss that matter very fully to-day, but just want to call your attention to one or two things in connection with it which have been brought out by the situation in the flooded districts of Colorado.

In the notes on the revenue act of 1918, by Secretary Carter Glass, under date of November 3, 1919, that matter is discussed and the advisability of making that sort of provision permanent law. Mr. Mellon, Secretary of the Treasury, in a letter written to Mr. Fordney under date of April 30 refers to it in this language:

In this connection it would be well, in the interest of fairness and in order to simplify the administrative problem, to provide, under proper safeguards, for carrying forward the net losses of one year as a deduction from the income of succeeding years.

This question is very close to the people of Pueblo, Colo. In the recent flood, which covered at least 85 per cent of the business section of that town, many of the business men, probably more than 50 per cent of the business men, of the town were practically wiped out as far as their assets are concerned. You can see that they paid income taxes last year on what they earned last year. This year their entire assets are wiped out. They will pay no income tax this year, of course, but without the enactment of some provision like section 204 they can never get credit for these heavy losses. They ask no special legislation in their interest, but, as a matter of fact, these same things occur in many places all over the country, and their case is cited as one in point. These extreme cases illustrate the justice of this section. I have a telegram from the Pueblo Commerce Club which I will merely hand to you and request that you put it in the record in connection with this statement. I think, from their standpoint, the case is very well illustrated, and I think others will bring it out more fully as a possible permanent policy.

Mr. HAWLEY. What were the town's losses?

Mr. HARDY. Nobody knows; \$15,000,000 is what some people say in Pueblo.

Mr. CRISP. Suppose you read the telegram.

Mr. HARDY. This telegram reads:

PUEBLO, COLO., July 23, 1921.

GUY U. HARDY,

House of Representatives, Washington, D. C.:

Justice of three-year spread provision of section 204 exemplified by many instances in Pueblo flood, as shown by following conservative example: A merchant who carries \$100,000 stock of goods reported income for 1920 of \$20,000, based on inventory at end of year.

In June, 1921, he loses entire stock of goods by flood, a large part of which stock consisted of goods shown on inventory.

His 1920 income, on which he has paid tax on basis of inventory, is wiped out, as is also his entire income for 1921, and in addition his investment in business is a total loss.

He has lost more in one year than he can regain in ten.

The spread provision would permit him to absorb his 1920 profit, entitling him to refund of tax.

Also his 1921 loss would be permitted to offset his 1922 profit if four-year spread is permitted. Correspondingly greater benefits are realized, but entire loss not even then absorbed.

Example cited very conservative.

Many cases at Pueblo and other places show greater hardship.

Our judgment provision should be made permanent to insure against injustice in case of extraordinary loss and should permit absorption of entire loss, regardless of length of time necessary to accomplish this result.

PUEBLO COMMERCE CLUB,
R. G. BRECKENRIDGE, *President*.

PUBLIC SERVICE CORPORATIONS.

W. V. HILL, SAN FRANCISCO, CALIF., REPRESENTING THE AMERICAN GAS ASSOCIATION, AMERICAN ELECTRIC RAILWAY ASSOCIATION, AND THE NATIONAL ELECTRIC LIGHT ASSOCIATION.

Mr. HILL. Mr. Chairman and gentlemen, Mr. Gadsden has directed me to appear in his stead. He was detained unexpectedly on a very important business engagement to-day and he telephoned me this morning and I will be very brief in outlining our position.

You gentlemen are aware of the fact that public utilities are subjected to very strict regulations by State public service commissions in nearly all of the States. These utilities are permitted to earn 6, 7, and 8 per cent on their investment, but many of them have not earned anything during the past several years, this being particularly true in the case of the electric railways. We therefore urge that if it is contemplated to increase the normal corporation tax that an exception be made in the case of the public utilities.

In this connection, I respectfully call your attention to the report of the tax committee of the National Industrial Conference Board on the Federal tax problem, known as special report No. 18, dated December, 1920, and quote the following paragraph on page 45 thereof:

It is recognized that a very large proportion of the public utility corporations are subject to regulation by Government agencies and as a class are not financially able to pay an increased income tax under present conditions. Then, too, as practically no public utilities are owned by individuals as sole proprietors, there is not the same necessity for imposing a compensatory tax. It is suggested, therefore, that the present rate of 10 per cent should not be changed in respect to such public utilities.

We also express the hope that the undistributed income of public utilities that is required for carrying on the business and meeting the demands of the public for extensions and betterments to the property will not be taxed. At the present time there is practically no market for public utilities securities. These utilities require in the neighborhood of \$750,000,000 a year. This money must be obtained in the open market in competition with the tremendous volume of tax-exempt securities now being issued by Federal, State, and minor governments. The result is, there is no market for public utilities securities and the future is not promising unless Congress takes some action to stop future issuance of tax-exempt securities

and the States are induced to act likewise. We are very much in favor of the proposed constitutional amendment offered by Congressman McFadden, which is now before your committee, realizing, however, that it will take at least two years to become operative after its enactment by the Congress.

Mr. GARNER. Have you ever thought of adopting the remedy that has been suggested for the railroads, and is being now urged by the administration, that the railroads turn over their securities to the Government, and have the Government issue its certificates of indebtedness and get the money and let them have it in that way? By that method you could turn over these \$750,000,000 of securities that you have got to the Government, and the Government would issue its certificates, and get the money and let you have it. The railroads are going to do that, and I wanted to suggest that you think over that plan.

Mr. HILL. That would be very desirable from our point of view, and I might add here that these public utilities have gone through this war period, you might say, with very little governmental assistance, while the railroads were more fortunate. The electric railways, for instance, were not assisted by the Government in adjusting their fares and rates to meet the tremendous increases in wages imposed by the National War Labor Board during the war. They were confronted with a situation wherein the Government through this board raised their costs of operations without providing some method for adjusting their income to meet the increased costs. The Director General of Railroads authorized large increases in wages on the steam railroads but he also authorized increased rates to meet these increased costs of operations.

Mr. HAWLEY. Did I understand you to say the railroads were more fortunate?

Mr. HILL. They, at least, have been able to keep out of receiverships, but we have over 300 electric railways in the hands of receivers.

Mr. FREAR. They were pretty nearly in that position before they were taken over by the Government, were they not?

The CHAIRMAN. They are much nearer to it now than before the war, evidently.

Mr. HILL. Our troubles really antedate the war, Mr. Frear.

Turning to the present act, Title V, tax on transportation and other facilities, and on insurance, I have this suggestion, that if it is considered that the transportation tax will not be repealed, it would be a very popular move, and also helpful to the carriers that are collecting the tax, if the 42-cent exemption that now applies on one-way fares could be extended to some higher amount, say \$1. For instance, you eliminate a tax on commutation rides under 30 miles. Now, you can only ride about 12 miles.

Mr. FREAR. What section is that?

Mr. HILL. Title V, page 50, Mr. Frear.

The CHAIRMAN. What change do you suggest there?

Mr. HILL. I suggest that the exemption on fares, one-way and round-trip fares, should be placed up to, say, \$1. That would coincide with the exemption that now applies to commutation or special-rate tickets. You can ride about 12 miles now for 43 cents on a

straight ticket. That would apply, of course, to the electric railways, waterways, and steam railroads, and it would be very popular.

Mr. FREAR. How was that rate of 42 cents arrived at, do you know?

Mr. HILL. I do not know. It has been changed. It was first 35 cents, and then it was amended later, I think in 1919, to 42 cents. It is a very troublesome tax. Of course, the public pay it, but from the electric railways' point of view it is quite a little trouble to collect it. A lot of our fares are collected by the conductors on the trains.

Mr. GREEN. It is not more troublesome than any other tax of that kind would be. The trouble is not on account of that particular limit. We put it originally, I think, at 35 cents, thinking that would cover most of the commutation fares, but afterwards we extended it. That limit was more or less arbitrary, and at the same time we took into consideration the actual workings of the railways when we fixed it.

Mr. HILL. That is all, gentlemen. I thank you very much. I would like to file a brief for Mr. Gadsden.

BRIEF OF PHILIP H. GADSDEN, REPRESENTING AMERICAN ELECTRIC RAILWAY ASSOCIATION, AMERICAN GAS ASSOCIATION, AND NATIONAL ELECTRIC LIGHT ASSOCIATION, ON TAXATION OF PUBLIC UTILITIES.

1. We urge that public utilities be placed in a special class for the purpose of taxation, so that the burden of Federal taxation to be imposed upon them may be determined in the light of the fact that they are regulated industries. Public utilities are already by law treated as a special class for everything except taxation. Their rates and the selling price of their products are fixed by law. They are compelled to buy their labor and material in the open market and to sell at prices fixed under regulation. The public utilities are segregated in a separate class with reference to their operating expenses. The kind and quality of the service rendered by them is largely specified by law. The ordinary business man can adjust his affairs to the varying conditions of the time. In periods of depression he can retrench, reduce his activities, and cut off his expenses. The individual can do the same. The utilities can not. They can neither adjust their revenues to meet increasing operating expenses or increased taxation, nor curtail their facilities for business operations.

Again, they are placed in a special class so far as undertaking new business is concerned. The merchant or manufacturer can refuse to take on business when he sees no profit in it. Public utilities must furnish electric transportation, gas, electric light, and power to all who apply for it under regulations fixed by law.

But when it comes to taxation, public utilities have up to this time been treated as any other business corporation, notwithstanding the fact that a public utility's return on its investment is limited by law, whereas the ordinary business corporation is free to make any profit which business conditions will permit.

For these reasons we urge the Ways and Means Committee to consider adopting a permanent policy of setting aside all public utilities—that is, regulated industry, in a special chapter to be treated separately for the purposes of Federal taxation.

2. The American Electric Railway Association, American Gas Association, and the National Electric Light Association earnestly protest against any increase in the normal income tax on gas, electric railway, and electric light and power companies, and urge that the normal income tax on public utilities be kept as at present at 10 per cent and not increased along with business corporations generally as has been proposed. The reason for this distinction is apparent to anyone who is conversant with the history of public utilities during the last four or five years. It is admitted that of all classes of business enterprise, the public utilities have suffered the greatest injury as a result of the war. For several years when every other class of business was prospering beyond anything ever anticipated, the net income of the public utilities gradually month by month diminished; in many cases dividends on stocks were passed, and even interest on bonds left unpaid at a time when industry generally was enjoying an unparalleled prosperity.

We urge, therefore, that it is only fair that the burden of Federal taxation on public utilities should be made lighter than on business generally. Their rates for service, being regulated by law, are not easily adjusted to increased expenses. Owing to the local character of electric railways, gas, and electric light and power companies, it was not found practicable during the war for Congress to take any action to relieve their condition such as was taken in the case of the steam railroads. They have had to bear the full brunt of increases in the cost of labor and materials without any assistance from the Federal Government, notwithstanding the fact that it is now clearly recognized that the services they render are essential to the national life. Here is an opportunity, however, for Congress to show its appreciation of the plight of the public utilities of this country and afford them some measure of relief. It was in recognition of these facts that the committee of the National Industrial Conference Board in its report recommended that the income tax on public utilities be retained at 10 per cent.

3. Tax on undistributed income: A tax on undistributed income would fall with peculiar hardship upon public utilities. In the first place, in a regulated industry there is no opportunity for unusual or excessive earnings. The rate of return is placed at a maximum which rarely exceeds 8 per cent, so that with public utilities it is not possible to declare an 8 per cent dividend and retain an equivalent amount in the treasury of the company as undistributed earnings. The reason which is generally urged to support the tax on undistributed income does not apply to regulated industry. There is one reason, however, which when properly understood, would seem to show that it is clearly against the public interest that such a tax should be applied to public utilities. Owing to the extraordinary increase in the cost of operations, both during and since the war, with the tardy and meager increases in rates which have been allowed, the public utilities as a class have been forced to suspend the payment of dividends and to utilize any small amounts of net income for the purpose of providing for those necessary extensions and betterments of their service which are insistently demanded of them by the public. It is generally recognized that the credit of public utilities has been affected injuriously by the experiences through which they have been forced to go. For years they have been unable to secure the additional new capital necessary to provide the extensions and betterments to plant and facilities to keep apace with the development of their respective communities. In this connection I refer the committee to that portion of the report of the senate committee on reconstruction and production referring to public utilities. This report shows that public utilities have had to postpone extensions and enlargements of their plant and facilities for years. At the same time, a certain amount of such extensions and betterments have had to be made.

They have been made out of the net income of the public utilities which otherwise might have been declared by way of dividends. The tax upon undistributed income of public utilities would still further reduce the available funds now being used for extending the railway, gas and electric light and power services to the consumers of this country. If such a tax is seriously considered by this committee we would urge that either public utilities be expressly exempted, or that the paragraph should be so worded as not to apply to earnings which are reinvested or held for reinvestment in the property within 12 months after the year in which they accrue, or which, together with the earnings distributed, do not exceed, say, 10 per cent return on the value of the property.

4. Tax-exempt securities: While public utilities, unfortunately, are not subject to any excess-profits tax, and while their income taxes amount to a very small amount of money—they amounted in 1918 to only about \$12,000,000 for the three industries I represent—while it is true that our stockholders and bondholders have suffered so that their taxes have been very largely reduced, I want to call the committee's attention to the serious burden which the excess-profits taxes and the high surtaxes have in an indirect way upon the public-utility business.

We have recently had a study made of the effect of the surtaxes and the income taxes upon the sale of public-utilities securities. We have been very much disturbed to find that under the present fiscal and taxation laws of this Government the taxpayer who is subject to a surtax of over 3 per cent can not afford to buy a public-utility security paying 8 per cent or less in preference to a 5 per cent tax-exempt bond. That means that practically the only purchases of our securities must come from the people who are in the

\$10,000 class. The reason for it is that the public utility, being regulated by law, its earnings being kept down to practically 8 per cent, it, of course, can not have any long-time issue securities of a greater rate of interest.

I am not trying to inject an argument for exemption of securities, but I am showing how vitally interested public utilities are in any law which will spread out the burden of taxation and which will make it possible for Congress to reduce, if not cut out, these very high income taxes. The public utilities of this country, including the steam railroads, must every year find new money for their extensions and betterments. The group I represent require about \$750,000,000 a year. Altogether, including the steam railroads, we need about \$2,000,000,000 of new money every year. That money must be obtained in the open market in competition with these municipal securities. No man with a high income can afford to buy our securities, because we can not afford to pay more than 6, 7, or 8 per cent, as the laws says we can not get more than that amount. The investor is being driven by that process away from public utilities into municipal bonds, building schoolhouses and courthouses, and public roads. The effect of that is this: In the first place, the \$2,000,000,000 of betterments which the public requires can not be made. They have not been made in four years. We estimate that public utilities are behind in actual necessities—that is, the three public utilities I represent—at least a billion and a quarter now, owing to the inability to get money.

The second effect is that as we fail year by year, owing to our inability to get this additional new capital to measure up to the standard and growth of our various committees, and fail to render the facilities which the communities must have, there is a growing dissatisfaction in the communities against our service and an increasing demand on the part of the population to take them over. It is quite apparent that the public will say: "If you can not raise money, we can; we can get all the money we need at 5 per cent." Therefore, we reach this anomalous situation, that while the political policies of this Government have been definitely and firmly fixed in opposition to the municipalization of these utilities, the financial and the fiscal policies of the Government are inexorably driving us into it. Therefore any tax whose tendency is to spread out the burden; any tax which will raise money sufficient to enable this Government to relieve the higher brackets on the surtax and the income tax, is working in the interest of the public utilities and immediately in the interests of the users of those facilities all over the country.

PURCHASE TAX.

C. P. LANDRETH, PHILADELPHIA, PA.

Mr. LANDRETH. Mr. Chairman and gentlemen, I am an individual in business. I am in the belting business, which makes me deal with manufacturers all over the country, and, from the viewpoint of the manufacturers, I want to say that they are all down and out. They are doing very little or no business. I also manufacture apparatus used for water purification purposes by cities. There are several things I want to speak about. You have heard a great many special interests mentioned here, and I do not want to say anything about my own special interest. You have heard from a lot of lawyers and a lot of tax experts, and you have heard how the tax rates on this, that, and the other thing should be adjusted. The argument is put forward for the benefit of certain individuals, or certain businesses, but I want to speak to you about the individual in business, and there are a great many of them in this country. There is no allowance at the present time for the capital that individuals or partnerships invest in their business. They constitute a large amount of the business of the country, and very often from individuals corporations grow. I know of a business where there has been invested as much as \$300,000, and that has been invested by an individual in the development of his business. Now, he has no exemption for the capital which he has invested, but a corporation doing identically the same

business would have an exemption of about 8 per cent on the capital invested, or \$24,000 would be their income prior to being taxed at all. That condition, I think, should be corrected. The decision of the Supreme Court, dated December 16, 1921, stated. [Reading:]

As to one and all, Congress adjusted this law, generally speaking, on the basis of excluding from its operation income to the extent of a specified percentage, 7 to 9 per cent of the capital employed, but upon the condition that such capital be valued according to what actually was embarked at the outset or added thereafter, disregarding any appreciation in values.

The CHAIRMAN. The individual does not pay the corporation tax or the excess-profits tax?

Mr. LANDRETH. No, sir; but if I should make \$24,000 out of a business with a capital of \$300,000, I would have to pay a tax that the corporation would not have to pay.

The CHAIRMAN. The corporation must pay the excess-profits tax.

Mr. LANDRETH. But it has an exemption of 8 per cent.

Mr. GARNER. In what way.

Mr. LANDRETH. Before they are charged with any excess-profits tax, they are allowed an exemption of 8 per cent.

Mr. GARNER. But in the first place they have to pay a corporation tax which is higher than the individual tax.

Mr. LANDRETH. After allowing for \$24,000?

Mr. GARNER. No.

Mr. LANDRETH. The Supreme Court says here, "as to one and all"——

The CHAIRMAN (interposing). After paying the excess-profits tax, then they pay 10 per cent on what is left.

Mr. LANDRETH. Who, individuals or the corporations?

The CHAIRMAN. All corporations. They have a deduction before paying the excess-profits tax, and then there is a tax of 10 per cent on what is left.

Mr. LANDRETH. Yes, sir; but they have an allowance.

The CHAIRMAN. Of course, the corporation pays taxes that the individual does not pay?

Mr. LANDRETH. Yes, sir.

Mr. GARNER. This gentleman makes the statement that the corporation has an exemption of 8 per cent on account of its capital stock.

Mr. CHANDLER. There is an exemption of \$2,000.

Mr. LANDRETH. I have read the words of the Supreme Court.

Mr. FREAR. In the case of undistributed profits the corporation pays just as much as the individual, does it not?

Mr. LANDRETH. No, sir. Here is another thing. I do not like to be personal in my statement, but last year I reinvested my profits in the business, and that was a matter of necessity in order to keep the factory going.

The CHAIRMAN. In your reply to the question asked by the gentleman from Wisconsin, did you mean to say that the profits made by a corporation and not distributed in dividends paid no tax?

Mr. LANDRETH. They are allowed an exemption of 8 per cent.

The CHAIRMAN. They pay a tax on their profits. There is no question about that.

Mr. GARNER. Suppose you have a corporation with a capital investment of \$300,000, and you have an individual who has \$300,000

invested in his business. Now, suppose that each one of those businesses makes \$30,000; in that case the corporation pays on \$30,000, and the individual pays on an income of \$30,000. Then the stockholder of the corporation, if he has a surtax, must pay a surtax.

Mr. LANDRETH. That is after the distribution by the corporation.

Mr. GARNER. The corporation pays in the beginning on \$30,000, less an exemption of \$2,000.

Mr. LANDRETH. Then, what does the Supreme Court mean? Can you tell me that?

Mr. LONGWORTH. You are getting the flat corporation tax mixed up with the excess-profits tax. The excess-profits tax does not apply to individuals, and, therefore, the individual has that advantage.

Mr. LANDRETH. Speaking of incomes and profits, there is another thing to be considered and that is that the business men in this country are interested in knowing how they can make any profits at all to-day, because business is down and out, with 5,000,000 men out of work. Now, they claim that it is due to the uncertainty of their taxes, and because they do not know where they stand. To-day they think they may have made a certain amount of profit and they make their returns according to the best of their ability. Then, two or three years later somebody comes around and says that they owe so much more, because they deducted this or that amount improperly.

Mr. GARNER. You are speaking particularly now of the excess-profits taxes?

Mr. LANDRETH. Of any taxes.

Mr. GARNER. Do you mean to say that we should repeal all taxes in order to relieve the business conditions?

Mr. LANDRETH. No, sir; but you should substitute something different.

Mr. GARNER. What would you substitute?

Mr. LANDRETH. I would like to take the business of the country, which, according to the bank clearings, represented last year \$450,000,000,000 of money, and I would like to utilize that as the basis for taxation. In other words, there was a gentleman arguing to you about candy, and we will suppose that here is a corporation or organization that buys sugar, and that they pay 1 per cent, we will say, on their sugar. Now, they pay nothing on their labor, and they pay nothing on their overhead, and they only spend their profits. Now, when they spend them, let us tax them according as and when they spend them. Then, when they buy they know what their taxes are, and when they sell they know what their costs are. Then, if they make profits, they must do something with their profits, and I say when they spend their profits, let us tax them. I do not know whether any of you gentlemen are manufacturers or not, but I am, and I want to say to you that there is great difficulty in determining what is profit and what is income. The determination of what is profit and what is income is a burden on business and industry in this country that you have no idea of. Suppose we take the manufacture of tables, like this, as an illustration.

At the end of the year suppose I have several hundred tables in process of manufacture, and I have to make an inventory for tax purposes. For my own purposes, I can estimate satisfactorily for myself what I have, but when I make an inventory for tax purposes I must find out what the labor cost is, I must find out what lumber

went into this table, how much the lumber cost, who worked on it, how much was paid to him, what was the hardware cost, what was the varnish cost, and a thousand and one other things, in order to know what I should include in the inventory. The lumber used in the table may have been bought last summer and the price may have gone up again. There are certain regulations provided whereby there are certain deductions. Now, should you leave it to the taxpayer to say what shall be included in his inventory upon which his tax is levied? Suppose I should estimate this table at \$10 too low, and I am paying a 20 per cent income tax on that; then I would be cheating the Government out of \$2, and if I should estimate the table \$10 too high, then I would be cheating myself out of \$2. Any basis for taxation under which you call upon the individual to estimate the amount of his taxes is seemingly wrong, and it should not be followed, provided we can get some better basis. Now, then, should you tax the business transactions of the country, if a manufacturer buys raw material he pays his tax then. He has paid his tax, and he knows what his cost is. His taxes are paid and done with. Then capital would be invested in business and business enterprises would be going ahead, whereas to-day there is stagnation. The day will come when one can not get any new patents developed, because one can not get capital to invest in them.

Mr. FREAR. Were you present when Mr. McKenzie testified this morning as to the money that has been invested in business enterprises, and when he showed the great growth of business corporations, or the amount of capitalization or the amount of money invested right up to 1920?

Mr. LANDRETH. I did not hear him; but capitalization does not always represent the amount of money that is paid into a corporation. Suppose I have invested, as I have, in business \$300,000, and I had to work mighty hard to earn it in another business. Now, if I could capitalize that company on account of the value of patents at \$1,000,000, it would not mean that amount of money actually invested. It is very hard to determine that.

Mr. FREAR. What elements do you use in indicating business conditions? The matter of transportation, the cost of transportation, the increased cost of production, and the condition of the market here and abroad, are all questions that enter into it, are they not?

Mr. LANDRETH. Yes, sir. Speaking about markets abroad, suppose I should want to export goods, and that I should expend this year \$100,000 in advertising and in putting salesmen out in my attempt to do that business. Suppose I lose that money this year, but suppose next year I am more fortunate and make \$100,000, that would only mean that my original capital was restored. However, the law now provides that I must pay a tax on that \$100,000. The law now says, "You have made \$100,000, and therefore you are subject to the tax." Under those circumstances, why should we go into business?

Mr. FREAR. Let us take the case of the farmer who loses his entire crop, and yet must pay full price on the value of his land in taxes. Next year he may make a good crop and be able to make good his losses, but he can not charge up his losses of the previous year in computing his taxes.

Mr. LANDRETH. That is true; the farmer is in the same position.

Mr. FREAR. He is in that identical position, and he has had to do that for many years in this country.

Mr. LANDRETH. He has had to do that since 1913, or since this tax law passed.

Mr. GARNER. If I understand your position, it is that it would be better to repeal the income tax and excess profits tax and levy a sales tax.

Mr. LANDRETH. A purchase tax, and not a sales tax. There is a difference between a purchase tax and a sales tax.

Mr. GARNER. May I call your attention to the fact that the question of an income tax was submitted to the various States of the Union and they adopted that amendment to the Constitution, indicating that the people of this country believed that the income tax was an equitable one.

Mr. LANDRETH. I call it a vicious circle. The Constitution says that the Congress may, not shall, levy upon incomes. It does not say, "upon profits left in business." When proposed, and later adopted, it was thought by many to have meant incomes in reality and as received, used for personal or family purposes. A law was passed, and then came the difficulty to define or determine income. There are some 2,100 regulations now by the department, trying to determine what are income and profits. As I said, the law was passed, and then came the difficulty to define or determine income. A like law pertained to corporations. Then came the war, requiring increased revenue, with the tax raised on business profits and incomes and then, as a final result of this tax basis, higher prices, or prices higher than necessary. The difficulties resulting from this basis of taxation produced business and investment uncertainty, then business depression with labor thrown out of work. Then more uncertainty and depression, less consumption and less work and less money. Capital became overcautious, was invested in tax exempt and Government bonds, and "sure things" only. Thus the "vicious circle" was completed and business became paralyzed.

Mr. FREAR. What are you reading from?

Mr. LANDRETH. From a statement I have prepared.

Mr. GARNER. You come from Pennsylvania?

Mr. LANDRETH. Yes, sir.

Mr. GARNER. What system of taxation do you have in that State?

Mr. LANDRETH. We have a direct tax on land and buildings, and, of course, we have personal taxes. We have a tax on mortgages, a coal tax, and a tax on a few other things. The coal tax, for instance, is a direct tax on the price of the coal, and of course, must be passed on to the consumer. Those taxes do not make any difference to the business organization, because they are simply passed on to the consumer.

The CHAIRMAN. In your opinion, what is the difference between a sales tax and a purchase tax?

Mr. LANDRETH. If it is a purchase tax, the purchaser pays it, for instance, on the raw material that he purchases. For instance, if the amount of the purchase is \$1, and his tax is 1 cent, he would pay it all at once. The buyer is the man who gets the benefit.

The CHAIRMAN. It is shifted to the purchaser?

Mr. LANDRETH. That is where it belongs. The labor on top of that raw material would not be taxed and the overhead would not

be taxed. For instance, 1 per cent on a \$3 item would be absorbed by the manufacturer. They would class it as an ordinary business tax, just as the cost of a stenographer. If I bought \$100,000 worth of goods during the year, I would not include that sort of cost.

Mr. GARNER. I do not quite understand the consistency of your argument. I understood you to say that the tax was always passed to the consumer.

Mr. LANDRETH. Where they can add the tax. Of course, they are all paying the same general profit taxes and passing them on.

Mr. GARNER. You said that it was passed on to the consumer, and then said that it would be absorbed by the manufacturer. I do not see the consistency of that argument.

Mr. LANDRETH. I said the profits and income tax as now levied; the country is disgusted with them. We feel that there should be a basis for taxation that is definite and positive and one that one may know at once. If I buy something, I would like to know then what the tax will be. Then, I will know where I stand as a business man, and I can sell the article at a price which will correspond to a reasonable profit.

Mr. LONGWORTH. How would your system work with such a business as the Steel Corporation, which practically buys nothing.

Mr. LANDRETH. That corporation, as I understand, is made up of many corporations. One is an ore company, and they buy, of course, all kinds of equipment, machinery, and belts, so far as my business is concerned. We would sell to one of those organizations, and then the steel organization would pay the organization as they bought the ore. The steel organization in turn sells to its jobber and the jobber to the trade, but it is only one——

Mr. LONGWORTH (interposing). There are no jobbers in the organization of the Steel Corporation. In the case of a corporation that practically owns and controls all of its raw materials, and everything involved in its operations down to the finished product, how would that system work?

Mr. LANDRETH. They do buy, of course. In the first place, they have invested their money in order to have raw materials, and they are entitled to some benefit from that. Now, if you levy a tax of 15 per cent, in the way I understand is proposed, on a corporation that is manufacturing clothing, for instance (everybody uses clothing), what will be the result? The person who buys the wool pays the profit tax of 15 per cent, and he passes it on to the wool scourer, and the wool scourer passes his tax on to the manufacturer of the cloth, and the manufacturer of the cloth passes his tax on until it is paid by the ultimate consumer. The Government estimates that present taxes add on the amount of 23 per cent.

Mr. FREAR. What branch of the Government has come to that conclusion?

Mr. LANDRETH. I have been told that it came from the Department of Justice.

Mr. FREAR. Assistant Attorney General Goff says that there is not one word of truth in that statement, so far as he can ascertain, although it is often quoted.

Mr. LANDRETH. I may be wrong, but I got it from Senator Smoot's argument. Now, then, there is an additional tax added. In 1917 the people paid their taxes, corporations and individuals, but suppose

they found that they did not have the profits that they thought they had. Suppose I have \$1,000,000 invested in a business and have a return of 10 per cent on that capital. That would be an income of \$100,000, and there would be quite a tax to be paid on \$100,000. Now, the result of that is that I must put up the price in order to realize a profit of \$100,000—and who pays it? It must be paid by the consumer. The way to reduce the price to the consumer is by doing away with those taxes which are based on the future.

Mr. FREAR. You would not regard that as an argument for a sales tax?

Mr. LANDRETH. The sales tax has in it many things that are good and many things that are wrong. I would exempt all of those little sales, and start with a tax of 1 cent upon sales amounting to from 50 cents to \$1, taking only the average of such small sales. On sales from \$1 to \$2, I would take the average, the average as between \$1 and \$2 may be taken as \$1.50. Now, then, the seller should remit to the Government once a month on account of his sales, and if his average sale between \$1 and \$2 is \$1.50, as we have no 1½-cent coins, I would make the tax 2 cents. The calculation would be very easy, and once a month the seller would simply return to the Government 1 per cent on his sales.

Mr. FREAR. I understand that the Secretary of the Treasury announced this morning that there would be no sales tax.

Mr. LANDRETH. I have not seen him. The sales tax has many disadvantages in that it is a tax on sales paid by the seller, and if it is a \$3 sale he will add tax on as 3 cents plus. Under this other plan he would not bother with passing it on. I speak advisedly on that, because I have spoken to hundreds of manufacturers, and they said that they would be glad to absorb it. Suppose we were buying \$100,000 worth of raw materials for the whole year. Do you suppose that any manufacturing concern would bother to add as a tax onto the price of its goods a total of \$1,000, which would represent about the price of one stenographer in the office? However, if you make that raw material up and put on top of that the cost of the labor, your overhead, and profits, and put a sales tax on that, then it is another sort of item. Then they will pass the tax on. It always has been so and always will be so. If you tax the business of the country, you then tax the individual when he buys anything. When he buys stocks and bonds, tax him when he spends his money. When a man makes money and buys stocks and bonds, he is enabling enterprises, perhaps, to go ahead; and if he makes money on them, then tax him when he spends his money, but do not penalize industry.

Mr. GARNER. If you buy a bond or a share of stock, you pay the tax, or the man buying pays the tax.

Mr. LANDRETH. Yes, sir; he is getting the benefit of it, and should pay a tax. Suppose it is a 6 per cent bond. The first year he has paid his tax and he knows what the bond cost him. If it is a 6 per cent bond he would have \$50 left and the next year he gets his \$60. What is he going to do with that profit? He is going to spend it for something else.

The CHAIRMAN. Suppose he does not make a profit on his purchase?

Mr. LANDRETH. Then the poor fellow should not pay a tax.

The CHAIRMAN. How would you determine that?

Mr. LANDRETH. Well, he has got to pay when he buys.

The CHAIRMAN. When a man sells he knows right off whether he has made a profit or not.

Mr. LANDRETH. When he has sold, yes; and he also knows what it cost him, and he must be willing to pay something because we have to support this Government; everybody has to help bear his share. We say, "This poor fellow, this working man, for instance, must pay \$25 for a suit of clothes that he ought to buy for \$20." Why? Because the people are adding to the price all of their taxes, but under the scheme I have been mentioning he would buy that suit for \$20 and pay a 20-cent tax.

The CHAIRMAN. As I understand, you are a manufacturer of tables?

Mr. LANDRETH. I did not say that; I simply said, "I did presume so."

The CHAIRMAN. Do you not know that all manufacturers add to the price the cost of production and all of the items that enter into the cost?

Mr. LANDRETH. But, as I have said, under the scheme I have mentioned, I do not believe one cent would be added. You will remember that I said that if I bought \$100,000 or \$200,000 worth of goods over a year I would not figure that purchase tax in at all, because it would be so small, but when I find at the end of the year that I have got to pay an income tax, the next year I am going to add to the price.

Mr. FREAR. You are going to do that and sell your goods in competition with the other fellows?

Mr. LANDRETH. Yes; we are all in the same boat.

Mr. FREAR. And ordinarily you will load on all the public will pay; that is, all the traffic will bear?

Mr. LANDRETH. No.

Mr. FREAR. That has been true recently.

Mr. LANDRETH. Take steel, for instance. Who cut the price of steel first? The smaller organizations. They did that because they had to have business. As everybody knows, business is down at the very bottom, and the banks are calling loans. Men who had stocks worth \$100,000 now find them worth \$50,000. They can not borrow against them; the banks will not loan them the money with which to conduct business and business can not go ahead.

Mr. FREAR. If we remove all taxation from corporations like yours—

Mr. LANDRETH (interposing). I am not a corporation.

Mr. FREAR. But you have been talking from a corporation standpoint. If we do that will that bring about good business? Will that start all of these industries?

Mr. LANDRETH. Every one says that if the taxes are reduced and matters put into such shape that business will know where it stands, then it can go ahead.

Mr. FREAR. You said everyone, just like you said everyone in the country was disgusted with certain taxes. What do you mean by that?

Mr. LANDRETH. I mean the manufacturers with whom I have talked, and I have talked with many.

Mr. FREAR. A man was here this morning who held the opposite view.

Mr. LANDRETH. Do you mean the candy man?

Mr. FREAR. No; Mr. McKenzie.

Mr. LANDRETH. Is he a lawyer or a business man?

Mr. FREAR. He is a man with corporation business; he is a lumberman by profession and also a farmer—a man of a great deal of experience in the matter of taxation.

(Mr. Landreth submitted the following additional statement:)

ARGUMENT IN FAVOR OF THE "MONEY TRANSACTION BASIS" FOR TAXATION.

TAXATION.

It should be fully realized by all that revenue for Federal purposes must be obtained, and that it is necessary to procure such revenue from sources that will work no further injury to the business and agricultural interests of the country. Reduction of revenue from one source demands a substitute source. Incomes from business are the most uncertain of all sources for taxation purposes.

A sound basis for taxation is one common to all, both to the individual and the corporation (which is simply an association of individuals), and avoidable by none, permitting a direct levy, without hardship and proportionate to the individual benefit derived from the basis. The tax to be levied and collected when and as the benefit is derived.

MONEY TRANSACTION BASIS.

The money transaction basis fulfills these requirements.

This basis will provide an adjustable taxation basis also, for the rate can be easily changed without affecting business.

This basis for taxation has been discussed with hundreds of individuals representing the different classes of people, and the views of executives of business organizations in various lines and groups under which business is conducted were obtained in order to find any objection to its general application. Included among these were chartered public accountants and tax experts, manufacturers, department and smaller stores, bankers and brokers, bank cashiers, lawyers, doctors, general insurance agents, farmers, laborers, clerks etc., and also housewives. It met with general approval, showing it to be popular.

This basis would abolish the profits and income tax, and yet would place a tax on all instead of the few of but about 1 per cent of their profits or incomes, and would necessarily lower prices and stabilize business, thus inducing investment in business enterprises.

As will be shown, transactions for money or its equivalent, starting at 50 cents, resulting in the transfer of ownership or benefits, which include many transactions other than purchase or sale, excepting those involving personal services or labor, borrowed money and gifts, may be advantageously considered as a basis for taxation purposes. Such transactions are the only common basis for taxation. (Transactions of taxing powers of course being exempt.)

By taking business and other money transactions of the country, considering averages when purchases are small, instead of the separate purchase (as will be explained), and using this as a basis for taxation, we can progress in the problem.

The more simple the basis for taxation, the more readily it will be accepted by the public and the more popular it will become as a basis for taxation. A money transaction tax all pay in some degree now, and all are particularly interested in having prices lowered and the factories opened up.

The larger transactions incident to general business rather than the smaller only should be the chief consideration in a matter of this magnitude.

REVENUE TO BE DERIVED.

Last year a 1 per cent basis would have resulted in revenues of over \$4,000,000,000. Also, the maximum tax on individual incomes could not have exceeded 1 per cent. All would have paid their share of the revenue required instead of a few paying too much and passing it and "a little bit more" on to the "all."

The bank clearings are representative of the general business transactions of the country when taken over an extended period of time. For the year 1920 the bank clearings were something over \$450,000,000,000. Billions of intermediate transactions over 50 cents are not thus shown. This is a stupendous amount of money and but 1 per cent of this is \$4,500,000,000.

BASIS COMMON TO ALL.

Should we view the money transactions (not retail sales or purchases only), as a basis common to all businesses, professions, and individuals, we shall have something common to all, and it would be a basis, when it is properly applied, for taxation directly proportional to the value of the transaction as set by the purchaser and to the income or profit derived.

The wearer receives the most benefit from a suit of clothes, the value of which is set by his willingness to purchase. If the income and profits tax were abolished, the workingman would find that when he bought a suit of clothes, instead of the price being \$25, it would be \$20 in a short time, with only a 20 cent tax. He wants work and lower prices, and would pay his share of taxes gladly. I know, for I asked him, and believe his answer. He is intelligent.

The collection of the tax is to be through business mediums. The vendors or lessors under simple regulations to remit once a month to the Government, if properly registered; others to supply stamps for cancellation.

A manufacturer or business organization buying raw material or such, or finished products, or a factory building, in the absence of a specific profit or income tax would pay, say, 1 cent on the dollar. They would then know that the revenue tax was paid in full. Business could then go ahead on a definite basis, knowing its costs and taxes. The tax on profits or income would only be due when the profits or income were spent. Bank deposits would be taxed when utilized.

The transaction tax proposed would not multiply to the final consumer, as has been contended with reference to the sales or turnover tax, for in the absence of a specific tax on profits or income, this small 1 per cent tax on raw materials, etc., would be classed by most business organizations having a fair margin of profit, with other overhead expenses, and be lost sight of. Only where the margins were small would it be considered. The labor costs, overhead and profits added to raw materials or finished products are not included in the basis to be taxed. With raw material \$1, labor \$1, overhead and profits \$1, total \$3, the tax would be but 1 cent, not 3 cents, as in the case of the sales tax basis.

OPERATION.

Small transactions difficulties as regards taxation disappear by not taxing those under 50 cents and starting the tax at 50 cents, it being 1 cent up to \$1, considering the small purchases in the average only. The average as between \$1 and \$2 may be taken as \$1.50 and as we do not have a 1½ cent coin, the tax would be 2 cents, 1 per cent of the next higher dollar. This would work out equitably a both buyer and seller alike, as will be found by adding up a long column of sales taken at random from the records of any store or business. Fifty cents to \$1, 1 cent; \$1.01 to \$2, 2 cents; \$100.01 to \$101, \$1.01; etc.

The purchases not taxed below 50 cents are nearly averaged by those over 50 cents up to \$1, for which the seller collects 1 cent on a 50 cent sale or over. This being 2 per cent of a 50 cent purchase and he having to remit but 1 per cent, he will strike an average and would not have to keep account of sales separately.

Where the great bulk of purchases is under 50 cents, the profits are usually sufficient for the seller to absorb the tax, in case there were small differences in the course of a month.

Thus it is immaterial for revenue purposes whether the seller collects the tax or not, because he is to be held responsible to the Government for 1 per cent of his sales during the month.

The amount of the transaction tax should be added to the foot of the invoice as "U. S. Government tax," and remitted for with payment of the invoice. It would therefore not be necessary to keep records of any kind except to establish the total of the transactions. Sellers should be registered and keep records, under regulation. This could easily include bankers, merchants, factories and all others of responsibility. Where they are not registered, as in the case of small dealers who otherwise might collect the tax and often keep it, or in the case of farmers and such, who do not keep books, the regulations should provide that stamps be supplied and canceled for the tax paid. Thus the purchaser would know that his payment reached the Government.

Should the seller fail to supply himself with stamps, which would not amount to 10 cents a day on a business of \$6,000 per year or \$20 per day, because more than half of his sales would be under 50 cents, evasion could be easily detected by a revenue officer making a purchase. Reporting the evasion and warning would have salutary effect. Postage stamps might be utilized for these tax payments. The revenue would thus reach the Government.

Ten cents per day, however, on a basis of but 1,000,000 farmers and small stores, would amount to \$3,000,000 per year, sufficient to pay all revenue collection expenses, under this basis.

Upon the basis suggested, where transactions are in the form of brokerage, marginal trading or the borrowing or loaning of stocks and securities, or transactions where the actual ownership is not changed, these are not to be considered complete transactions for tax purposes until actual delivery is made to the bona fide purchaser. If money is drawn "on account" it would be taxed when spent.

I brought this basis of taxation to the attention of a large banking and brokerage house and am advised that the details could be worked out much more simply and more to their satisfaction than the workings of the present income and profits tax law.

Where the individuals are neither registered nor have fixed places of business, it may be best to levy as a stamp tax. With further study of the method of collecting the tax, it may be deemed best that securities, mortgages, leases, deeds, etc., should have stamps attached to make them legal.

By emphasizing in the law that any transaction from \$10 up on which tax has not been paid shall have no standing in court in the event of dispute, it will deter either the buyer or seller from evading the tax through collusion.

There is quite a difference between a sale and a purchase when it comes to taxation, and unless the law is definite, controversies will arise in large and small transactions. It should be clarified by using the words "such tax to be borne by the vendee or lessee, collected and remitted by the vendor or lessor."

These suggestions will, I believe, clarify the application of the principles of this character of taxation. We must raise revenue and this is simpler than the income and profits basis. It would be final and would tax each person or business in proper proportion.

PRESENT TAX BASIS.

The great difficulties and complications incident to determining invested capital and profits, which include inventories with varying values, property depreciation, etc., now so essential in determining income or profits under the law, should be done away with and this great burden upon business removed. (Regulation T. D. 3109 relating to inventory, is only one of the thousands of regulations business has to contend with.)

QUESTIONS.

The application may be shown by answering the following usual questions:

Will it produce the needed revenue? Yes.

Would it tax the "poor man's breakfast table"? No (not unless he so wished); because of the 50 cents exemption.

Will it be popular? Yes; it will take the tax off the "movies," ice-cream cones, soft drinks, railroad fares, freights, etc.

Would it tax labor? No, not of any kind.

Would it reduce prices? Yes, by reducing profit taxes, now "passed on," estimated by the Government to add an average of 23 per cent.

Would it reduce business profit taxes? Yes, to an estimated average maximum of 5 per cent.

Would it reduce income taxes? Yes.

Can any avoid it who should pay? No.

Does it tax the small sale? No.

Will it tax those who now invest in tax-free bonds? Yes.

Will it tax borrowed money? No.

Will it tax bank deposits? No, except upon the interest withdrawn and utilized.

Will it tax land or other real estate now owned? No; it is not the "Henry George" single tax, but embodies its merits without its demerits.

Will it tax classes, as often thought regarding the income-tax law? No.

Does it tax benefits when and as derived only, and in financial proportion thereto? Yes.

Will it tax the "rich" more in proportion than others? Yes (because of the nature of their investments), when not engaged in professions, manufacturing, or trade. (Personal money leaving this country should be taxed.)

Will it induce investments in business enterprise? Yes, if the enterprises appear profitable.

Would it lower stock or bond market values? No.

Will it stimulate business? Yes; it would restore confidence and prices would be lower.

Will it in any way upset present business methods? No; it would bring producer and consumer together more quickly.

Will the revenue be difficult to collect or the tax hard to assess? No

Will it abolish any present law? Yes; a very unpopular one.

Will it make foreigners while in this country pay their share of the taxes? Yes.

Will it transfer the tax from "the rich" and place it upon the "poor"? No; it will have the tendency to reduce tax now "passed on" and automatically transfer it to the "rich."

Since the "rich" had the brains to earn (and properly invest their wealth), to get back any increased tax is a simple matter. If the tax is raised, it is "passed on" with something added for the trouble.

It was a short-sighted policy to unduly tax the income. It transferred (in a few years) the burden to those who could least afford it, induced higher prices, and later retrenchment in business.

I am trying to present a means of benefiting the poorer and middle classes and yet raise the needed revenue by a more equal distribution of taxation, and thus revive business.

It is much better to have work and a small tax than no work and no tax. We must open up the factories.

EXPORTS, ETC.

The people of these United States desire to sell that which they can produce, and to export merchandise (the best business obtainable for a people as a whole), but should an individual or an organization now wish to create an export business by spending, say, \$100,000 this year in advertising and expenses, they dare not do it under present taxation methods.

Should they have no profitable business this year and lose the \$100,000, their capital would be reduced that amount. If next year they gained a profit of \$100,000, their capital would simply be restored, and there would be no real profit.

However, because of the income tax law as it now is, it would be ruled that there was \$100,000 profit during the year in which it was derived, and be taxed accordingly, to a large amount, approximating \$30,000. The proportions illustrated may vary, but without affecting the principle. The tax law relates to the specific year in which the profit is derived.

Thus, an organization would lose in money as capital paid as tax for having enterprise and for providing (on a 10 per cent profit basis) \$1,000,000 worth of business for laboring men and others.

Consequently, they withhold their capital from enterprise and invest in tax-free and Government bonds, as these are reduced in price through the necessities of others.

This same law applies to every business, including farming. Many businesses require years of losses before a profit above expense incurred is realized. Is it any wonder, therefore, with such a taxation basis as at present, that business enterprise and buying is at a "standstill," and that our factories are closed down?

While this is now a "buyer's" market, he can not buy because he can not sell, and thus the factory can not operate. If the present law is to stand (as it certainly should not) then provision should be made for averaging profits and losses over a period of years, and equal allowances made to the individual as to the corporation.

INDIVIDUAL ALLOWANCE.

Probably through some oversight, the present act provides no allowance for an individual's capital investment as regards taxation, such as is permitted to corporations, and added capital from profits invested is construed and taxed as "income."

This is an unbearable hardship and throttles individual enterprise and is contrary, seemingly, to the decision of the United States Supreme Court.

The Supreme Court decision of May 16, 1921, includes these words:

"As to one and all, Congress adjusted this law, generally speaking, on the basis of excluding from its operation income to the extent of a specified percentage, 7 to 9 per cent of the capital employed, but upon the condition that such capital be valued according to what actually was embarked at the outset or added thereafter, disregarding any appreciation in values." (Note "as to one and all")

The income tax return form shows the only allowances permitted. No capital nor salary (as an executive) allowance provision is included as permitted a corporation. (See copy of tax return.)

This should be immediately rectified and allowance should be made retroactive.

SALES TAX.

The Government can not well tax, under a direct tax, both the income, as now, and that for which the income is later spent, as would seem to be the case where an income and sales are both taxed, as was proposed, without possible violation of the Constitution.

INCOME AND PROFITS.

A distinction should be drawn as between income and profits from business. Income should represent that which is withdrawn from business profits or received from investments, services, salaries, etc. Profits are the indication of the success of business enterprise, as shown by the books, though these profits in a large or small degree may have been reinvested in the business, and not withdrawn. To tax these on the basis of "income" penalizes business enterprise when profits are not withdrawn but are reinvested in the business, and retards purchases.

The endeavor to tax goods, effects, or securities, profits, and income as such, has led to injustice, discontent, hardship, and business depression in nearly every instance.

THE VICIOUS CIRCLE.

The Constitution says that the Congress may (not shall) levy upon incomes. (It does not say "upon profits left in business.") When proposed, and later adopted, it was thought by many to have meant incomes in reality and as received, used for personal or family purposes.

A law was passed, and then came the difficulty to define or determine incomes. A like law pertained to corporations. Then came the war, requiring increased revenue with the tax raised on business profits and incomes, and then as a final result of this tax basis, higher prices, higher than necessary.

The difficulties resulting from this basis of taxation produced business and investment uncertainty, then business depression, with labor thrown out of work. Then more uncertainty and depression, less consumption and less work, and less money. Capital became overcautious, invested in tax-exempt and Government bonds, and "sure things" only. Thus the "vicious circle" was completed and business became "paralyzed."

The "root" of the trouble is the profits and income taxation basis. If we dig it out and throw it away, and substitute a simple tax basis applicable to all, capital and business will then know where they stand. Reducing percentages only cuts one inch at a time off the dog's tail, prolonging the suffering. The complete tail might finally be cut off, but why the additional suffering? Revenue can be procured otherwise than from profits and incomes, as such.

The "money transaction tax" basis will meet the requirements for a sound and permanent source of revenue, and should be urged for immediate adoption.

**FRANK P. MILLER, PAPER BOARD AND BOX MANUFACTURER, DOWN-
INGTOWN, PA.**

The CHAIRMAN. Mr. Miller, state what your business is and where you are from.

Mr. MILLER. I am from East Downingtown, Pa. I am a manufacturer of paper board, and I am also interested in two folding box factories.

Mr. GARNER. Do you represent anyone except yourself?

Mr. MILLER. I represent the business I am in and myself.

Mr. GARNER. You speak for your companies alone and not for any organization of companies?

Mr. MILLER. No, sir.

Mr. COLLIER. Do you make what is called beaver board?

Mr. MILLER. No; we make set-up box and folding-box board.

Mr. COLLIER. You do not manufacture building materials?

Mr. MILLER. No; we make paper board, and different grades are made out of paper, but they are prepared and glued into all shapes.

The CHAIRMAN. You may proceed, Mr. Miller.

Mr. MILLER. The welfare of all the people was never menaced more than it is to-day. We are in our third year of one of the worst panics we have ever known. The principal cause for bringing this panic was the agitation of socialism, I. W. W. ism, and other "isms" little short of anarchy. Congress heard these clamors for laws to stop this, control that, and for Government ownership. Believing that there was a public demand for confiscation of large estates, incomes, and profits from industry, the tax law was passed, endeavoring to stop big fortunes from being piled up and to distribute those that were amassed by inheritance tax. Expert accountants were employed to write this law, which, as it now stands, is mostly decisions of the revenue commissioner. A great many men saw what this law would do, but said nothing until the war was over. The right to confiscate life and property for war was not questioned.

Mr. Fess of Ohio, in his speech of April 19, 1921, clearly shows the unreasonableness and damage done by these tax laws. His arguments are so clear and easily understood that any fair-minded jury would render a verdict against them.

Mr. FREAR. Will you extend his remarks in the record with your remarks, because I do not believe we are all familiar with them?

Mr. MILLER. Yes, sir. I would like to add that the cost of accounting and auditing by the taxpayer and the Government tax collector is about equal to the appropriations for our Army and Navy, and I believe that a conservative estimate would show an unnecessary waste of nearly \$700,000,000 per year. I would like to explain right here that I get that figure from being told by some of the revenue people that it was costing the Government \$125,000,000 to audit and collect the excess-profits tax and inheritance tax under this law. If it is costing the Government that sum of money it is costing the taxpayer five times as much. I have gotten that from talking with a number of auditors who audited individual returns and made them up. I was told this morning that it was only \$50,000,000.

Mr. LONGWORTH. The Treasury Department has never given out any such figures, so that those figures are of no value whatever.

Mr. MILLER. I was going to add that if it is costing \$50,000,000 to collect it, it must be costing the taxpayer five times that, and it does seem that is an unnecessary waste if we can get this tax in some other way.

Mr. GARNER. Will you tell us how to get it another way?

Mr. MILLER. I agree with Mr. Landreth as to a purchase tax and getting the income tax when the tax is spent, which requires no bookkeeping and no returns to be made.

Mr. GARNER. Dr. Fess's speech was in line with those made last fall and I am afraid you are going to be disappointed in the relief they promised you last fall with reference to these taxes.

Mr. MILLER. I did not quite catch that.

Mr. GARNER. I say, Dr. Fess's speech in the House was in line with speeches made last fall, prior to the election, and I am afraid when this bill becomes a law, and you read it over, you are going to be disappointed as to the relief you expected from those speeches.

Mr. COLLIER. They have changed the word "reduction" to "revision."

The CHAIRMAN. The gentlemen are speaking of speeches delivered in Texas.

Mr. MILLER. I have a copy of the speech; I did not hear it, but I have a congressional copy of it. This is the copy.

Mr. GARNER. Do you want that to go into the record, Mr. Frear?

Mr. FREAR. No; I will not insist upon it.

Mr. COLLIER. What is the date of that speech?

Mr. MILLER. April 19, 1921.

The CHAIRMAN. It is a splendid speech, and I commend it to the consideration of the gentlemen on my left.

Mr. COLLIER. Does that recommend revising or reducing the taxes?

Mr. MILLER. He advised reducing them, but I can not see from his recommendation that he gave me any relief from the point I want to make.

Mr. GARNER. And I do not think you will find any relief in the bill when it is enacted.

Mr. COLLIER. You could not find any relief in Dr. Fess's speech at all?

Mr. MILLER. Not on the point I want to make.

The CHAIRMAN. There is only one way to reduce taxes, and that is to reduce Government expenditures.

Mr. MILLER. I agree with you.

The CHAIRMAN. The expenses are very great and our debt is enormous.

Mr. MILLER. I think we could stand a billion, but I do not think we can stand \$4,000,000,000.

The CHAIRMAN. If that amount is necessary, are you not willing to bear your share?

Mr. MILLER. We are willing, sir, to raise and pay you our proportionate share of the \$4,000,000,000.

The CHAIRMAN. The last administration asked for something like seven and a half billions in their report. Do you not think, if it is cut to \$4,000,000,000, that is a pretty good move in the right direction?

Mr. MILLER. Elegant; anything you can cut is a move in the right direction. I have some Democratic friends who exactly three months after the present administration was in power said to me, "What has Mr. Harding done? He has been in there four months, what has he done?" Different things have come out that have been done, and I have cut them out and mailed them to them, and I have said to them, "These are some of the things that are being done."

Mr. COLLIER. Would you mind mailing them to the committee, so that we could get the benefit of them? We have been asked that same question and we would be obliged to you if you would mail those to us.

Mr. GARNER. Have you gotten a great deal of relief in your business in the last four months?

Mr. MILLER. No, sir. The companies with which I am connected did about \$5,000,000 worth of business last year, and my wage roll in six months amounts to more than all I am worth in the world.

Mr. GARNER. How much do you anticipate doing this year?

Mr. MILLER. We are running 100 per cent.

Mr. GARNER. What do you mean by 100 per cent?

Mr. MILLER. Running our mill to its full tonnage; but we are the only ones in the United States doing it, most of them running at about 50 per cent. It is simply a matter of mathematics whether

you lose more money by shutting down or running. We will not have any excess profit to pay this year; we will not have any profit tax to pay, because I can not see in the next five months how we can earn anything to pay; but we will have to borrow money. Last year our mills paid about \$150,000 in taxes—war taxes—but this year they will pay none. We should have liquidated our debt during good times.

Mr. GARNER. I was just wondering, if you made so much money recently, just why it was, after the Republican Administration went into power on March 4, they did not do something that you might continue to prosper in your business.

Mr. MILLER. I will have something further to say, which I think will explain that to you, sir.

Mr. GARNER. I am interested in that.

Mr. MILLER. It will not be denied that all of the people of the United States derive some benefit from their Government. Then why should not they be willing to pay their fair share of the cost for the benefits they receive? There is no question but that the Government has to have the money, and it would seem that an income tax is the only way to get it, but under our American form of government there is no reason for exempting some from tax, graduating and putting an excess tax for others. If we have an income tax, it should be at the same rate per cent on all incomes. If two American citizens bring to our customhouse exactly the same article and the same quantity of any commodity, should one be exempt or pay a normal duty and the other man pay five or ten times the amount because he is worth a million and the other man is only worth \$100,000? If the present system is allowed to continue, it will not be long before townships, boroughs, and cities will be asking to exempt a \$2,000 house from school, road, borough, and city taxes, and the man living in a \$50,000 house will be asked to pay 25 times more tax than the man who lives in one that cost \$5,000, instead of 10 times or the same rate per cent.

I would recommend abolishing all income tax laws which require the making of tax returns and save the people the expense and annoyance from this cause and pass a law which will tax business 1 per cent on all commodities they purchase and an income tax of 1 per cent on all incomes when spent. This can easily be worked out so as to prevent any one from evading their tax. It will tax all foreigners in the same proportion as our own people and prevent the money they earn from getting out of the country without paying a tax. It would likewise prevent American people from taking money out of the country and spending it abroad. Under this plan the Treasurer of the United States will know each month exactly the amount of money he is receiving from this tax. The law can be arranged so as to lower or raise the rate per cent to provide for emergencies, but it would be better in good times, when this tax would yield more, to create a surplus so as to take care of the shortage when times are bad. It will give the United States Treasurer a monthly barometer as to the exact conditions of the business of the country.

Mr. GARNER. As I understand, you have explained how you expect to relieve your business, and that is to repeal the income tax law and make it 1 per cent when it is spent and to levy 1 per cent on the

purchase price of things. You are not going to have your business relieved and your business is not going to be relieved under such a law as is going to be passed by these heathens over here.

Mr. LONGWORTH. Would you be for it?

Mr. GARNER. No; I would not. Your party is not going to give you that relief. They are not going to repeal the income tax law and they are not going to levy a purchase tax.

Mr. LONGWORTH. The reason is that we are suffering from the handicaps of a Democratic administration, their tremendous waste of money, and a Democratic filibuster against a bill to reorganize the Government departments which would have saved millions of dollars.

Mr. MILLER. I do not care whether a man is a Democrat or a Republican, I am not in sympathy with him if he is in favor of confiscating a lot of the money I have earned in 44 years of hard work. If I have not made what I have honestly it is the fault of some one in not stopping me. These excesses that have come have happened just twice in my lifetime. The greatest difficulty I have had has been that of getting capital. I could have been worth ten times as much as I am worth if I had been able to get capital. The two high years that we have had were detrimental to us. They brought in new mills to the industry, which overproduced from five to ten years before the consumption would catch up with the production.

Mr. FREAR. What did you say is your business?

Mr. MILLER. Paper board. We have two mills that produce 100 tons a day. The last runaway market, during 1919 and 1920, has been a menace to our business. The customers bought, and we begged them not to buy; they wanted to buy and ordered far ahead, and they put the price up on themselves. We begged them not to do it, because the builders of paper-mill machinery were going every place and getting any amount of capital, paying cash in advance to get paper machines built, and I think I am right when I say that in the last two years there have been 23 new machines come into the market, which will increase the daily production over 1,000 tons a day. Where that paper is to be consumed I do not know.

Mr. FREAR. Has there been a proportionate reduction in price due to that competition?

Mr. MILLER. To-day we are selling board below the lowest price in history; there never has been a time in history when paper board was as low per ton as it is to-day. Our freights are 300 per cent higher than they were when I built my mill on the Pennsylvania Railroad tracks. Now, take off our advance in freights and the war tax—3 per cent on inbound and outbound freights, which amounts to something like \$700 a month to us—take those two items off and we are selling to-day below anything in our history.

Mr. FREAR. Then it is largely a question of transportation?

Mr. MILLER. No, sir.

Mr. FREAR. It is not?

Mr. MILLER. No. I say our cost is below what it ever was in the country, but the actual ton price is not quite so low as it has been, because it has added this excess freight and war tax.

Mr. FREAR. Then, as I say, it is a question of transportation, because the cost of transportation enters into the price.

Mr. MILLER. In regard to the condition to-day, who is it chargeable to? I go back to 1912 and charge it to the people that listened to the

false doctrines that were then preached, and we are suffering for it to-day. As I say, we are in our third year of the panic. The panic started in 1912, 1913, and part of 1914; it was suspended by the war until the fall of 1920, when all the big business people of the country claimed we could not stop business.

Mr. LONGWORTH. Have you made an estimate as to the amount of revenue your proposition would raise?

Mr. MILLER. Yes, sir. Based on the bank clearances, it will give us about \$4,000,000,000.

Mr. LONGWORTH. On the basis of 1 per cent?

Mr. MILLER. Yes, sir.

Mr. LANDRETH. I have the figures. The bank clearances of the country last year, which represented business generally, including stocks and bonds, were \$450,000,000,000; 1 per cent of that would be \$4,500,000,000. There are many, many transactions, billions of them, that do not enter through the bank clearings.

Mr. MILLER. On that matter, a banker of Boston told me that the bank clearances were not a barometer of the business done.

Mr. LONGWORTH. Do you propose a tax on everything anybody buys above 50 cents?

Mr. MILLER. Yes, sir; I would be satisfied with everything above a dollar; that would be enough.

The CHAIRMAN. Then the 10-cent stores would do millions of dollars' worth of business and pay no tax at all?

Mr. MILLER. Yes, sir. He will not collect from 5 and 10 cent buyers, but will pay his 1 per cent tax on goods bought.

The CHAIRMAN. And yet they make as large profits as men who deal in goods that sell for 50 cents or a dollar or more. That being so, why relieve them?

Mr. MILLER. Those that sell for less than 50 cents?

The CHAIRMAN. Yes. The dime stores, which do an enormous business and make great profits.

Mr. MILLER. They pay 1 per cent tax when they spend or invest their profits. I do not believe from what I have said I have favored the exemption of anybody, sir.

The CHAIRMAN. You did not say that, but the other gentleman did.

Mr. MILLER. I think as to these little purchases it could easily be worked out, because if you went into a department store the clerk would make out a slip at the time, with the added 1 per cent, the slip would go to the box and come back with a stamp stuck on it, which would give you a memorandum of the deal. It is simple enough to work out.

Mr. LONGWORTH. Would you raise all of our revenue by a general consumption tax?

Mr. MILLER. No, sir; but I would raise it by revenue. But we can not raise revenue to-day to meet our expense. We used to do it by the tariff.

Mr. LONGWORTH. I am talking about internal revenue.

Mr. MILLER. Internal revenue. I would do away with all that.

Mr. LONGWORTH. By preventing any kind of a tax on wealth and putting it on the consuming public?

Mr. MILLER. I do not think the rich man is a menace to the country.

Mr. FREAR. How would you raise it by tariff?

Mr. MILLER. We can not to-day the condition of the country is in, raise all of the \$4,000,000,000 in the country.

Mr. FREAR. How could you in 10 years from now, no matter what the condition is? What would be your theory of raising it entirely by tariff?

Mr. MILLER. I think you gentlemen of the committee are able to take care of the tariff. I understand it is some four or five hundred million dollars they can get that way. I am taking it for granted that is the best that can be done.

Mr. FREAR. You mean that could be done by tariff?

Mr. MILLER. Yes, sir. If we could get our governmental expenses down \$1,000,000,000 it would lessen it that much.

Mr. FREAR. How could we go below the \$4,000,000,000 when we have a \$24,000,000,000 debt and have \$1,000,000,000 interest a year? We are up against that proposition.

Mr. MILLER. True. If I could get an actual fair value out of my business and get nonexempted Government bonds, get Government bonds that would protect my living income, I am afraid that is what I will have to do.

Mr. TILSON. Go out of business entirely?

Mr. MILLER. Yes, sir. I do not see much future.

Mr. TILSON. If you have concluded, if you have a brief you wish to file with the clerk, we will be glad to have it.

Mr. MILLER. I just had what I have read.

The CHAIRMAN. Leave it with the reporter.

Mr. MILLER. There is one thing I mentioned in my brief in regard to the inheritance tax.

The CHAIRMAN. Yes.

Mr. MILLER. It is better to give a concrete example. I have a brother-in-law that died last year, February, and he was worth a million or a million and a half dollars. His wife died nine days after he did. They paid an inheritance tax twice on the same estate.

The CHAIRMAN. Within nine days?

Mr. MILLER. And I had to help loan the children the money to pay it with.

Mr. CRISP. I think you might look into that. Does not the law expressly say that one can not be required to pay tax on an inheritance within five years that had already paid such a tax?

Mr. GARNER. Either three, four, or five years. You paid that second tax without any authority of law.

Mr. MILLER. I would like to collect it back then, and if it can be obtained it would help the children to have it back.

Mr. GARNER. You do not have any inheritance tax?

Mr. MILLER. No, sir; not in such percentage as in the graduated inheritance tax. If you wish to put it on the same basis as the income, that is all right. I had a cousin who had some preferred stock in our concern. She died and her heirs had to pay an inheritance tax and asked us at a critical time to buy the stock back. I borrowed the money to buy it back to pay the inheritance tax. That was interfering with the business.

Mr. CRISP. I would suggest that you investigate and perhaps you do not have to pay twice.

Mr. MILLER. The cause of the present panic was due to agitation and the changes in the administration in 1912. There were three

political parties in the field. The worst one of the three was elected which passed laws to confiscate wealth and harass all responsible people, both large and small.

The change in our tariff brought shiploads of foreign goods to our shores, throwing American labor out of employment. The change in our revenue laws, forcing thrift, industry, and large incomes to bear the cost of Government. The new party in power commenced to increase the number of employees and their pay until the cost of our Government reached a billion dollars in 1917.

The party in power then felt that having shifted the cost of Government from the people to the corporations, they could ignore the question of economy for all time.

The political party responsible for making these laws are gloat-ing over their success in stopping thrift and industry from making money and causing the transfer of large fortunes from business to tax-exempt securities.

If the last election meant anything, it meant to repeal these laws, stop Government interference in business, and give all equal opportunity. The time, annoyance, and money wasted in making income returns should be spent in the employment of labor to build new plants.

The cost of administering these revenue laws to both the Government and taxpayer is enormous, and business does not know when they have made a final settlement for their taxes. If at the end of four years, the statutory limitation, the tax is not audited and finally settled, the taxpayer is asked to waive exemption. If he did not grant this exemption, his office would be flooded with revenue men in going over the books and practically stop your business until they got through.

As long as these tax laws are in existence, all business, personal incomes, and property will be subject to a Government lien for an unknown amount of taxes, until they are finally audited, or the four years of statutory limitation has passed. A tax on business or profit tax can not be justly collected on a period of one year, as business runs in cycles of practically 10 years—three years of large profits, four years of practically earning a new dollar for an old one and sufficient to replace the worn-out plant and perhaps a small interest on investment, and three years of tremendous losses, and unless this can be averaged in 10-year periods, it is very unjust to tax business in this way.

The purchase tax is so simple, I am surprised that so many get it confused with a sales tax. "Mr. Mellon agreed with the committee that transportation taxes should be repealed at the earliest date possible, but doubted if the Treasury could afford this year to lose all of the \$330,000,000 annual revenue they produced."

I agree with him unless there are additional purchase taxes. Transportation tax is absolutely a purchase tax paid by the purchaser of transportation to the railroad agent who remits to the Government. Rich and poor pay the same rate per cent on the same amount of service. Mr. Mellon's flat Federal license tax of \$10 on all motor cars is not fair, but a purchase tax of 1 per cent on the cost of every motor vehicle now owned would yield on the average cost of \$2,000 a piece, for 10,000,000 motor vehicles in the coun-

try \$200,000,000, just double the estimate on his plan, and a 1 per cent purchase tax on all new and secondhand cars purchased would yield during a year a very large additional sum.

The motor car is a very good illustration of the way a purchase tax will affect the very rich and the very poor. One of the "56 rich men" will probably own a number of cars of a total cost of about \$50,000—1 per cent purchase tax or \$500 revenue. Now, the poor man who owns a car that cost him \$500—1 per cent purchase tax or \$5 revenue; both rich and poor are paying the same rate per cent, yet one pays 100 times more purchase tax than the other.

My idea of tax to support the Government is first by a tariff to protect American labor; second, a purchase tax on incomes when spent or reinvested, and a purchase tax on business of 1 per cent on all commodities and transportation. The profits from business are taxed when the individual owners spend their profits or reinvest them.

REAL ESTATE CORPORATIONS.

ROBERT HOMANS, ATTORNEY, BOSTON, MASS.

MR. HOMANS. My name appears on your calendar in rather confusing form. As a matter of fact, I am a lawyer representing a considerable number of corporations and associations in Boston owning real estate to a very considerable value, and they have asked me to come down here to beg you not to increase their taxation. These corporations or associations own real estate in Boston and also own real estate in all parts of the country; this is not a local matter. What I am going to say applies to corporations or associations owning real estate in New York, Chicago, San Francisco, or anywhere else. At the present time those corporations do not pay excess profits taxes. If any of them do, it is very exceptional. Their capital is invested in land and buildings. Their invested capital is so great that none of their profits bring them to the point where they pay excess profits taxes.

If it is the purpose of this committee to raise the present income tax on corporations from 10 per cent to some higher rate, you will be putting increased taxes directly on all corporations and associations engaged in owning and developing improved real estate. That is all I am speaking of. I am not speaking of mine-owning companies, oil-well-owning companies, or speculative land companies. I am speaking for the companies which should be encouraged, which want to get money from the community to put into buildings, large buildings, which must be done by combinations of capital and which can not be done by individuals, such as office buildings, apartment houses, hotels, and theaters.

Of course, if you want to get a source of revenue, if you want to discourage building, you can put an additional income tax on this class of business, but it seems most unfortunate to do so. It probably would do more good than anything else in this country if you could stimulate building, but if you are going to increase taxes on corporations and associations holding improved real estate, you do three things right off. In the first place, you make it much more difficult to borrow money on mortgages because the taxes are a prior charge,

and in the second place you make it more difficult to put up new buildings in the same class to compete with the old which have been built when costs of construction were far less. You want to make it easier for the new building to compete with the old building built when construction costs were less. In the third place, the returns now from this class of property—in something like 50 corporations I represent one-half pay a rate less than 5 per cent—the returns are so low that it has discouraged new investments of capital in building.

Mr. FREAR. Are they engaged largely in building or in holding real estate just simply for the rise, speculatively?

Mr. HOMANS. I think they are in it as a way of investing money, the same as you might buy a Government bond or invest in shares of stock of railroad corporations. Take the large offices, such as the office building where I have my office, there may be a thousand offices in the building, and people invest in that building because that is a way of putting in their money.

Mr. FREAR. There is no criticism on that, but what percentage goes into the building of homes and work of that character?

Mr. HOMANS. No; it is not the building of homes; it is the building of offices, apartment houses; a great many of them own large apartment houses used for dwelling purposes.

Bear in mind one thing, that real estate sticks out like a sore thumb for taxation. One of the companies, the State Street Exchange, has net earnings before taxes of \$336,573. What do you suppose the local tax in the city of Boston is? It is \$144,600, or 43 per cent of its net earnings for taxes. That is enormous. I have calculated most of the figures of these companies in local taxes having improved real estate runs from 30 to 50 per cent.

Mr. FREAR. What is the value of the property?

Mr. HOMANS. Something like four to six million dollars.

Mr. FREAR. What per cent is the tax?

Mr. HOMANS. \$24.10 per thousand last year.

Mr. LONGWORTH. Do they put it on the full value?

Mr. HOMANS. Almost entirely on the full value; yes, sir. There is another thing. Owing to the rise in the rate of interest, these companies which could sell their stock at about par and were paying $4\frac{1}{2}$ to 5 per cent dividends have had their shares fall to 40 and 50 in the market. Nobody is going to invest in that class of property which should be encouraged, not only for its own sake but for the purpose of encouraging building, if taxes are going to be raised.

Mr. FREAR. Have you taken it up before your local people, the local assessors? They are the ones who put this great burden on.

Mr. HOMANS. I think it is true in every city except this: I was told—I can not speak with authority—that in the city of Pittsburgh and other places in Pennsylvania in order to remedy this situation they have a gradually decreasing tax on improvements. I may be mistaken. But I think the committee would agree with me that, fundamentally, real estate and buildings constitute a proper subject for local taxation and not, generally speaking, a proper subject for national taxation.

Mr. COLLIER. You say your tax is \$24 a thousand in Boston?

Mr. HOMANS. Yes, sir.

Mr. COLLIER. Does that include the State and city taxes?

Mr. HOMANS. State and city tax, but not State income tax. The State income tax does not apply to rents, as a rule.

Mr. COLLIER. That is a real estate tax.

Mr. HOMANS. Straight real estate tax.

Mr. COLLIER. For both the city and the State?

Mr. HOMANS. Yes; except that the State tax, the State revenue in Massachusetts—I can not speak of other States—is raised considerably from the income tax, which is on the income from intangible property, and not on rents.

Mr. COLLIER. You mean Massachusetts?

Mr. HOMANS. Yes.

Mr. COLLIER. That income is not on developed real estate?

Mr. HOMANS. No. The Massachusetts income tax does not apply to rents at all. The local taxes in Massachusetts are based strictly on real estate, almost all, the city taxes and county taxes.

Mr. COLLIER. What other taxes do you have? Don't you have street taxes, road taxes, general road tax, school taxes?

Mr. HOMANS. It all goes under either the city or county tax.

Mr. COLLIER. Is that \$24 a thousand the State and county tax?

Mr. HOMANS. Annual tax on real estate.

Mr. FREAR. And city?

Mr. HOMANS. And city. It runs a great deal higher in other places in Massachusetts. It happens to be that in Boston.

We hope, gentlemen, that you can exclude us from the tax; if you can not, that you will not increase our taxes. The thing that bothers me most about this, I will say frankly, is how to protect a class of corporations or associations which we wish to protect and which it seems to be public policy to protect.

Mr. GREEN. You are asking for a special exemption?

Mr. HOMANS. In case that goes through; yes, sir. If these are not to be wholly exempted, I see no reason in the world why they can not be partially exempted.

Mr. GREEN. I can see the difficulties that you state and I sympathize very much in your statement of the case. I think that if the tax on corporations is increased that we will have a great deal of difficulty not only in your case, but in other cases such as public utilities, in making it work out for the public benefit, and perhaps, do the public more damage than the tax amounts to.

Mr. HOMANS. At present the extra Federal taxes which real estate bears come to an additional 6 or 8 per cent. For instance, one of the companies to which I referred pays a local tax of 41 per cent; the Federal taxes now add 6 to 8 per cent more. If you put on 5 per cent more, you can see they can not stand it. It is a distinct discouragement to building.

Mr. WATSON. What is the average return on large office buildings?

Mr. HOMANS. Not over 5 per cent, probably; not that to-day.

Mr. WATSON. What were the rentals increased during the last year?

Mr. HOMANS. I should say that during the war the expenses of office and apartment buildings in Boston went up so far that most companies which paid 4½ and 5 per cent came down to 2 and 3. They have gone back again now to 4 and 4½. I should say their increase in rentals have been about 40 to 50 per cent.

Mr. WATSON. I know that in some cities the office rents increased 50 to 100 per cent in some instances.

Mr. HOMANS. I should think we have had an increase of 40 to 50 per cent. The taxes are a terrible burden to bear.

Mr. FREAR. You are paying excess profits tax now?

Mr. HOMANS. No; I do not think so. I myself represent 40 or 50 of these organizations. There was one, I think founded in 1825, when realty was put in at such low figures that the Government gets an excess profits tax from. But that is still a question before the courts, and whether ultimately we will have to bear it or not, I do not know.

Mr. GREEN. I do not think you will.

Mr. COLLIER. You are not in sympathy with the Keller bill?

Mr. HOMANS. I do not know, Mr. Congressman, who put Mr. Keller's speech in my bag last night, but except for the fact that I think he is right in encouraging freedom from taxation on improvements to real estate, I think a very considerable part of his facts are confutable.

Mr. HAWLEY. The part you are in favor of you like, and the part you object to, you do not.

Mr. HOMANS. When he speaks of real estate, it seems to me, as an untrodden field of taxation, it is the most trodden field of taxation there is. That is what struck me right off when I read it over. I do not pretend to be an expert of any kind.

Mr. COLLIER. You do not believe that land of this kind should be subject to Federal taxation; that the emoluments arising from land in the way of income, etc., should be subject to taxation; but the land itself, you do not think the Federal Government ought to tax. That is your position, is it?

Mr. HOMANS. As a matter of fact, the Federal Government can not tax land as land.

Mr. COLLIER. They could not do it under present conditions.

Mr. HOMANS. But the Federal Government practically gets the same result under the present law by taxing income of corporations owning land. It is substantially the same thing. It must be borne in mind that the landowner passes it on to the tenant in many respects.

Mr. LONGWORTH. Have you framed an amendment that you think will improve it?

Mr. HOMANS. I have; and I worked at it quite a little, but whether it will satisfy the committee, I do not know. I will leave copies with the committee.

The CHAIRMAN. Read it into your statement

Mr. HOMANS. I will. It is in my brief. I will leave copies, together with a list of the companies I represent. May I say a word to add to what Mr. Emery touched on. You have got to decentralize the administration of these taxes. You have got to decentralize. You can not have this thing go on in Washington, this administration of the income tax. Let me give you an example: About a month ago a corporation up in my State, of which I happen to be a director, with no particular personal interest, received notice from the authorities in Washington, without any examination of our books or papers, coming entirely out of a clear sky, that we had been assessed upon an additional excess profits tax of \$140,000. That is quite a considerable sum. We wrote down to Washington and asked for a hearing, and they very politely gave us a hearing, and we went over it, and they said, if you can substantiate your facts there will be probably no further tax due. After we got through, I said to the gentleman at the Treasury Department:

"Now, how can you administer a tax on this system of sending around letters and assessing these huge, great extra sums, and then having everybody who gets hit come down to Washington?" He said, "I tell you how it is: We send these letters around, and send them out, and we find that it jolts the taxpayers a good deal, and it helps." I said, "It helps to send out letters to the taxpayers in Boston, because they can get to Washington, but how about sending them to the taxpayers in Portland, Oreg.?" He would kick like a steer."

There ought to be some method devised by which you can go to your local Federal officer and settle that local question. There was a suggestion made this morning about having a local board, an ambulatory board, to settle these questions. If that can be done, that might be all right, and it would provide prompt service.

But these questions that arise are not questions of law; they are questions of fact. And a question of fact can be settled by the taxpayer with the local officer, and I don't think anything further would be heard from it. And if that could be done by this committee, I think it would be a great benefit to everybody in the country.

I believe that is all I care to say, Mr. Chairman.

The CHAIRMAN. We thank you for your statement, Mr. Homans.

BRIEF OF THE STATE STREET (BOSTON) EXCHANGE AND OTHERS RESPECTING THE TAXATION OF REAL ESTATE CORPORATIONS.

At the present time very few private individuals can afford to invest their capital individually in any buildings of considerable size, such as office buildings, hotels, apartment houses, theaters, etc. The result of this is that the only way of providing for these real estate improvements is by corporations, associations, and joint-stock companies. Accordingly every encouragement must be given, if building is to be stimulated, to the investment of large and small sums in developing real estate through associations of investors.

This short brief is written to show that the taxes on profits of this class of corporations and associations should not be increased, but should, on the contrary, be reduced or abolished.

With the present housing and building shortage and a lack of offices and dwellings, it is most important to encourage new building. This can not be done if higher rates of taxation are imposed on the income from this class of property. In the first place, higher taxes tend to make it impossible to put up buildings which can compete with other buildings when the cost of construction was much lower. In the second place, the present returns on this class of property appear to be so low that it discourages all new capital from making new investments of this character.

If the new revenue legislation proposes a substitute for the present excess-profits tax, then the rate of taxation on these real estate corporations should not be increased because they do not pay excess-profits taxes at the present time, and so additional taxes on their profits mean a real increase of taxation and not a substitution.

The improved real estate in which corporations and associations of this class invest bear the great bulk of local taxation. The annual rate in Boston was \$24.10 last year upon the assessed value of land and buildings and the assessments are the full value of the properties.

Taking at random some of the associations joining in this brief, we find:

Association.	Net earnings before taxes.	Local tax.	Per cent of tax.
State Street Exchange.....	\$336,573.50	\$144,600.00	43
Washington Building Trust.....	114,917.24	34,892.50	31
Suffolk Real Estate Trust.....	93,116.36	38,458.78	41
Summer Street Trust.....	50,990.93	25,990.93	50
Western Real Estate Trust.....	409,761.00	132,508.00	32

The present Federal taxes add to the local taxes from 6 per cent to 8 per cent more of the net earnings before taxes.

The annexed sheet shows the dividend rates of a few of these real estate associations. One pays at the rate of 8 per cent, two at 7 per cent, five at 6 per cent, and half of them at 4 per cent or less.

Real estate investment companies are not engaged in business so that the community buys their wares. It is true that in the course of time rents can be increased in some cases to take care of increased taxes, but almost all buildings of considerable size are let for rooms or apartments for terms of years and the taxes are borne by the landlord. Accordingly, any extra taxation, as it can not be foreseen in advance, bears directly on the owners and is not borne by the community. These real estate corporations are not engaged, so to speak, in making money, but only in investing money in property which is necessary for the community and on which no great return is expected.

Unless Congress desires to increase the taxation, now burdensome to the last degree, on improved real estate held, and which must largely be held, by corporations and associations, we urge that they be included in the classes of corporations exempt from income tax or be subject to much lower rates than those engaged in manufacture and trade.

For that purpose, we propose a clause in the proposed revenue bill of the following character:

"That the following organizations shall be exempt from taxation under this title to the extent of ——— per cent less than the tax on corporations imposed by this title.

"All corporations, including associations and joint-stock companies, whose business is confined to the holding of or making investments in improved real estate and the management incidental thereto or to improving real estate by the erection of buildings thereon and whose purchases and sales are occasional only and, with any holdings of personal property, are incidental only to the business above set forth."

ROBERT HOMANS, *Counsel.*

Robert Homans, appears for corporations and associations, as follows: Barristers' Hall Trust, Bedford Trust, Berkeley Hotel Trust, Board of Trade Building Trust, Boston Ground Rent Trust, Boston Real Estate Trust, Boston Wharf Co., Bromfield Building Trust, Business Real Estate Trust, Congress Street Associates, Copley Square Trust, Factory Buildings Trust, Fifty Associates, Hotel Trust (Touraine), Kimball Building Trust, Municipal Real Estate Trust, Old South Building Association, Oliver Building Trust, Paddock Building Trust, Pemberton Building Trust, Post Office Square Building Trust, State Street Exchange, Suffolk Real Estate Trust, Summer Street Trust, Tremont Building Trust, Trimountain Trust, Western Real Estate Trust.

DETROIT REAL ESTATE BOARD,
Detroit, Mich., July 26, 1921.

DEAR SIR: Mindful of impending changes in the income tax law and mindful of your great interest therein, we, the Detroit Real Estate Board, composed of over 1,000 members, representing the foremost dealers and owners of this district, desire to convey to you herewith our observations and conclusions in relation to certain most undesirable features of the Federal income tax law. The present law demands that profits accruing from the sale of real estate be considered taxable income as of the year in which the sale is made. Because of the nature of the business in which we are engaged we have been able to observe in an intimate way the operation of this law. Exchange and development of real estate generally bears a relationship to the business activity of a community. At times of greatest business intercourse building is spirited, and when building is spirited we ordinarily find all business at high pitch. It is quite obvious that as we encourage building we stimulate business, and that as we retard building we depress business. We have found building and exchange of real estate seriously retarded because of that feature of the income tax law to which we have referred. Let us recite two typical cases illustrative of the effect of this law.

In the first instance the owner of a valuable property desired to sell, perhaps, for the purpose of investing in an industrial enterprise. A price is set and a buyer found, but when the owner learns the amount of his profit demanded by the Government he declines to sell. The Government passed the law because it desired income. Because of the severity of the demands of the Government, however, an owner has been compelled to keep his property. The Government has made no profit.

In assuming a second case, we find a valuable business property owned by a person who is unable because of financial reasons to improve it. Another man seeks the property as a location for a beautiful business block. A sale is arranged, but the owner

withdrew from the transaction when informed that his profit must be considered taxable income for the sale year.

By what stretch of imagination can my profit from this sale be considered income for this year, he asks. For five years I have owned and paid taxes on this property. Each year it has increased in value, accumulating for me an "undistributed earning." Part of the increased selling price of this land was income for 1917, part for 1918, part for 1919, part for 1920, and part for 1921. It is no more equitable to tax this profit as 1921 income than to total my salary for five years and tax the aggregate as income for the current year, thereby running into a high rate. I think the law grossly unfair and shall not submit to the penalty it imposes upon me for selling my land. The property is not sold and the building is not erected. Material men have lost important sales. Labor has been denied the employment it so sorely needs. The city has been deprived of a fine business structure. The Government has received no revenue. Perhaps a score or more of businesses and occupations have suffered.

We fully appreciate the stress of the situation which faced the Nation when the income tax law was passed by the Federal Congress. We believe, however, that Congress is charged to-day with another grave responsibility—the responsibility of leading business with minimum delay back to the peaceful and prosperous intercourse America enjoyed before the war. This is the appeal of the Nation. To accomplish this end, clear, intelligent, and specific statesmanship is demanded—a statesmanship which will remove the discouraging and retarding influence of to-day and give to business every possible encouragement and stimulation.

How should Congress correct the legislation to which we have referred? The question can be answered best by Congress itself, as it weighs this matter in relation to other tax questions.

It seems to us that by allocating the profits of a sale over the period of years in which the property was owned and paying a tax on each year's profit according to the rate existing in each respective year, and, further, by giving to profits from real estate the same consideration which may be extended to other income by the repeal or modification of existing surtaxes the law would be made equitable to the taxed and productive to the Government.

This communication conveys not only the sentiment of the legislative committee by whom an extensive investigation has been made, but bears as well the unanimous indorsement of members of this organization before whom it has been read.

F. C. SHIPMAN, *President*.

REFUNDING WAR DEBT.

W. H. STACKHOUSE, PRESIDENT NATIONAL IMPLEMENT AND VEHICLE ASSOCIATION, SPRINGFIELD, OHIO.

The CHAIRMAN. Mr. Stackhouse, will you give to the committee your address and the business that you represent?

Mr. STACKHOUSE. William H. Stackhouse, Springfield, Ohio. I am a manufacturer and I happen to be president of the National Implement and Vehicle Association.

Mr. GARNER. Well, you are here as their representative?

Mr. STACKHOUSE. Yes, sir.

The CHAIRMAN. All right, sir. Mr. Stackhouse, will you proceed, please, and we will be very glad to hear what you have to say.

Mr. STACKHOUSE. Mr. Chairman and gentlemen of the committee, I appreciate this opportunity, and I am going to use the utmost brevity in presenting for your consideration the attitude of our association on this matter of the revision of taxes.

In our judgment it is imperative to revise downward, and I wish to suggest now that we believe it can be done in the first place by refunding the entire war debt for a period of 50 to 75 years. I refer to the \$16,000,000,000 bonded indebtedness, and the approximately \$7,500,000,000 floating and other indebtedness, which we contend no student of the situation imagines for a moment the Government

is going to be ready to meet; that being one of the several causes, in our judgment, for these securities selling at a heavy discount.

We feel this a reasonable suggestion, when we take into consideration the fact that the Civil War debt approximating only \$4,000,000,000 or less, was not liquidated until within a period of about 50 years.

Mr. GARNER. When you speak of funding you are referring to funding and refunding of the outstanding bonds?

Mr. STACKHOUSE. Precisely.

Mr. GARNER. And have you taken into consideration the rate of interest that you would have the refunded bonds bear?

Mr. STACKHOUSE. What you have in mind, no doubt, in addition to the interest rate, is this, the further fact, and we would have to consider that the refunding of the present bonded indebtedness of the Government would have to be done from an optional standpoint in so far as the present holders of those securities are concerned.

The rate of interest would, of course, have to be a factor and would have to be fair and equitable. I have a notion as to what it should be, but not necessarily a valuable one. You gentlemen of the committee, with the experts on finance that you can command, could more readily and accurately determine the proper rate of interest than could we.

Mr. GARNER. No; I think you are business men and you would be more capable of telling us what interest rate is likely to be accepted by those who hold the bonds—that is, the new bonds, in exchange for the bonds they now have—and I think that you are probably in a better position to furnish us information than the financial experts or members of this committee. They do not have very many bonds, you know.

Mr. STACKHOUSE. Well, now, that would depend on several things, as will undoubtedly occur to you gentlemen.

In the first place, it would depend upon the provisions of these securities. Unfortunately, we have now a number of issues with non-uniform provisions and with nonuniform rates of interest that sell at various rates of discount.

If those bonds, the new bonds—I am discussing the refunding proposition now of \$16,000,000,000 bonded indebtedness—if they were absolutely uniform in their provisions and provided for but one rate of interest they would come vastly nearer selling at par than they do at present.

In fact, we do not know of anything that would come nearer stabilizing the market value of those securities than that very thing and make them very little susceptible to manipulation.

Mr. FREAR. Whom do you represent in making that statement?

Mr. STACKHOUSE. The National Implement & Vehicle Association.

Mr. FREAR. And you do not represent the financial interests of the country, the people who would be likely to buy those bonds? You represent just your own organization?

Mr. STACKHOUSE. That is all.

Mr. FREAR. I see.

Mr. STACKHOUSE. I simply represent my own organization. We do not want to have any misapprehension or misunderstanding, gentlemen, about that.

Mr. GARNER. Well, I think we can assume that those bonds would have to bear at least 5 per cent interest.

Mr. STACKHOUSE. I think that they would have to bear at least 5 per cent interest.

Mr. GARNER. Well, that would cost the people of the United States \$100,000,000 a year in addition to what it is now costing them.

Mr. STACKHOUSE. On the contrary, we would save the public several hundred million dollars a year and the Government would then be put on a sound fiscal basis. The Liberty-bond holder would have a security of vastly greater value than he now has.

The CHAIRMAN. Mr. Stackhouse, before the war, you know that the Government bonds sold at a premium, carrying a rate of interest of 3 per cent. So the funding and refunding of the present outstanding obligations should be done at a time when it would be most advantageous to the Federal Government and should undoubtedly be done, and will undoubtedly be done at that time, and the refunding of those bonds should be done at a time when they could be sold at par at a very low rate of interest.

But, as you say, I believe, and I agree with you, that they should all contain the same condition.

Mr. FREAR. Upon what theory do you put it at 50 to 75 years?

Mr. STACKHOUSE. I put it at that time upon the ability of the Government to meet them with cash at their maturity.

Mr. FREAR. Well, now, we are just preparing for another war. We have appropriated \$800,000,000 for the Army and Navy this year, and the chemical people are saying that we have got to prepare now for another war.

Now, what length of time would that give us to pay for it before we have another war, or would you leave these bonds outstanding until after that war?

Mr. STACKHOUSE. No; my suggestion was that these bonds specifically and serially mature within a period beginning 50 years and ending 75 years from date of their issue.

Mr. FREAR. Then, the proceeds which we would have to raise for another war, would have to be raised in addition to these outstanding bonds?

Mr. STACKHOUSE. Precisely.

Mr. GREEN. Do you think that this is a good time to refund bonds that do not mature, bonds that mature 20 years from now, when the rates of interest are as high as they are now?

Mr. STACKHOUSE. Well, I am assuming that the gentlemen of this committee primarily and this House are anxious to put this Government for once in its history on a sound fiscal system.

Now, if that is so, and I know that it is, it would involve providing in some scientific way for the retirement of the Government obligations as they mature and consequently not deliberately issue securities which it is well known to Congress and the Government would have to be defaulted on or refunded at about the date of their maturity.

Here, all of these Liberty bonds were sold at par.

Mr. GARNER. I really do not understand your philosophy, Mr. Stackhouse, in making the earliest date of maturity 50 years from the date of issue, and not taking up a part of them prior to 50 years from now. Now, if we are going to skip over a period of 50 years, why skip 50 years before we take up any portion of them?

Mr. STACKHOUSE. Yes; and that is a very pertinent question, sir. My philosophy and my only reason for doing that is to permit business to have an opportunity to revive and function.

Mr. GARNER. Do you think it will take 50 years for us to get over this war?

Mr. STACKHOUSE. It will take longer than 50 years for this country to recover financially from this war, including taxation, but you have business at a stagnation point to-day and we have a staggering war burden of taxation imposed on the country.

Now, all taxes are raised either directly or indirectly from business. There is no other way possible from which to derive them, and we feel that it is absolutely imperative that these taxes be reduced, not only that expenditures be reduced, and there is an important matter that you gentlemen are giving serious consideration to to-day, and we all appreciate it and we all realize it, but you can not reduce taxes substantially so far as the existing debts are concerned unless you refund the indebtedness, and I am assuming that you will provide for an amortization plan, without which a sound fiscal policy is impossible. If that assumption is correct, do you not see that from 50 to 75 years is the proper period for the maturity of these bonds, as they will be practically retired under these dates on an average of about 60 years instead of at present in approximately 30 years, which is utterly impossible? And the annual contribution to that amortization fund would be approximately one-half of what it is to-day.

Mr. FREAR. If you are going to put it that far off why not put it at 100 instead of 75 years?

Mr. STACKHOUSE. One hundred years might be more correct than 75. I do not know. I do not care to appear as pedantic with regard to these things.

Mr. GARNER. How much is the sinking fund at the present time costing the Government, on our present indebtedness?

Mr. STACKHOUSE. That I do not know, but I do know——

Mr. GARNER (interposing). Now, I am only trying to arrive at the sinking fund. The only difference would be merely in the sinking fund, under the amortization plan, and if you extend the time, double the time, you would get one-half the rate per annum for the sinking fund, or one-half what it is now?

Mr. STACKHOUSE. Yes.

Mr. GARNER. Well, how much does that amount to at the present time?

Mr. STACKHOUSE. That I do not know, but I will venture this opinion, that the Federal Government to-day has not or never has had in operation a real sinking fund method of procedure.

Mr. GARNER. Well, it is the law. I do not know whether they are carrying it out or not.

Mr. STACKHOUSE. I think I am entirely correct that at the present——

Mr. GARNER (interposing). It is in the law at the present. There is a requirement for the Treasury Department to collect and reserve a certain amount for a sinking fund, to take up the bonds of the Government, and that has been done.

But I venture the assertion, sir, that what you are claiming about the extension of the maturity of these bonds, that the amount that goes into the sinking fund yearly does not equal \$100,000,000 a year.

And if it does not, it would only result in \$50,000,000 a year less taxes, which is a mere bagatelle in the cost of Government at the present time.

Mr. STACKHOUSE. To commence with, this Government has about seven and one-half billion dollars which is due within the next two years, or two years and a half. Does anybody imagine that it is physically possible for that debt to be paid entirely in cash at maturity?

Mr. GARNER. But the matter you are talking about is refunding.

Mr. STACKHOUSE. Now I am coming to that point.

In addition to the seven and one-half billion dollars which makes up the floating indebtedness, you then have this \$16,000,000,000 of bonded indebtedness that will mature in 30 years, and it is just as clear to me that the Government will default on them at the end of 30 years—that is, a greater proportion of them—as it is that they will in the next two years on this seven and one-half billion dollars, as a matter of necessity. It will be an impossibility to meet them without a further paralyzing of business.

Then, there is one other thought in this connection to which I would like to direct your attention, and I do not care to precipitate a discussion. While I have the highest respect for the ability of you gentlemen, I have almost as high a respect for your time.

That other proposition is this provision of tax-exempt securities that has a direct bearing on this very matter, and I realize there is a very strong prejudice existing throughout this country against tax-exempt Government securities.

Well, that makes no difference to me. I think that it is a fallacious prejudice. I do not think that the prejudice amounts to an iota, and I will tell you why in just two minutes.

The Government in issuing those securities is going to immediately place them in competition with securities of States and municipalities, including those securities which are tax exempt, and in order for them to successfully compete and maintain their approximate parity these Government securities will have to be provided with an additional interest rate that otherwise would not be necessary. The result will then be that with one hand we will be collecting the taxes on that security and paying it right back again with the other hand to the purchasers in additional interest.

I contend that any such a procedure as that is in itself folly, pure and simple, in fact more simple than pure, because it leads unthinking people into a misapprehension of the real facts, the real facts being, as I think any mathematician will contend, that the Government by that procedure will increase its gross revenues and its gross expenditures correspondingly, leaving its net income unchanged. And it would be just as futile and nonproductive of Government revenue, in my judgment, as though you Members of Congress enacted a law requiring the Government to pay postage on all of its correspondence and tax the people for that postage, as you would have to do. The net result would be precisely as it is to-day. So likewise would the net result in offering Government securities tax free be exactly as it is to-day, and you would provide to hold them at par.

Of course, if your interest rate was inadequate they would go to a discount, and thus the purchaser would get his additional interest.

That happens to be our judgment, and I seriously request your most earnest consideration of that point.

In addition to refunding this bonded debt, which, in our judgment, is necessary to enable us to substantially reduce taxes, we suggest most seriously the reduction of the higher surtaxes on personal incomes which we contend are equally confiscatory to the productive sides of business as is the income tax imposed directly upon business.

Last year there were collected about \$5,400,000,000 by the Internal Revenue Bureau.

From former Chairman Good's recent public statement, I find your appropriations for the coming year will be about \$4,000,000,000 and in the collection of that I find that does not include the habitual and regular deficits which we had become accustomed to and which we business men in this country are hoping will in a short time pass out of existence, such is our confidence in the present Congress and administration.

In that \$5,400,000,000 collected during the fiscal year ended 1920, within a fraction of \$4,000,000,000 was collected from the income tax on corporations, partnerships, and individuals.

We hold that these surtaxes should be reduced to the 20 per cent bracket, and that would probably curtail new revenues, the Governmental revenues, about \$125,000,000 or \$150,000,000 a year, that statement being predicated on one that we have all seen recently promulgated by the Secretary of the Treasury.

We claim that all existing excise taxes should be repealed. Now, they amounted, during the last fiscal year to about \$750,000,000, \$400,000,000 of which was derived from business and about \$350,000,000 from the vicious transportation tax.

Mr. OLDFIELD. You say that we ought to repeal the transportation tax?

Mr. STACKHOUSE. Absolutely.

Mr. COLLIER. How much was the excise tax?

Mr. STACKHOUSE. \$750,000,000 were collected on the excise tax. That was the amount that was collected by the Bureau of Internal Revenue, about \$750,000,000.

Mr. COLLIER. And you say that that ought to be repealed?

Mr. STACKHOUSE. That should be.

Mr. COLLIER. Now, in addition to that there is the transportation tax?

Mr. STACKHOUSE. No; that is where I want to be clearly understood. The transportation tax is included in that.

Mr. COLLIER. That is included in the \$750,000,000?

Mr. STACKHOUSE. Yes, sir.

Mr. COLLIER. Now, that \$750,000,000 plus the \$150,000,000 which would be lost if it were cut down to the 20 per cent bracket, would make \$900,000,000. Now, what are you going to put in the place of that?

Mr. STACKHOUSE. What am I going to put in place of that? Gentlemen, if I were permitted, without violating the rule which I understood you adopted on yesterday here, my alternative is so simple,

so direct, and so equitable, that I do not see how any student of economics could object to it—

Mr. FREAR. Now, since on yesterday we have agreed not to discuss the sales tax, and are not going to accept it, now what alternative is left to you people?

Mr. STACKHOUSE. That is my sole alternative.

Mr. FREAR. Then you have nothing to offer except the sales tax?

Mr. STACKHOUSE. That is all.

Mr. CRISP. Mr. Stackhouse, I see by the press that there is a suggested increase to 3 cents postage on first-class mail. What do you think of that proposition?

Mr. STACKHOUSE. Will you permit me to answer that?

The CHAIRMAN. All right, Mr. Stackhouse.

Mr. STACKHOUSE. You asked about an increase on first-class postage; that was your question?

Mr. CRISP. Yes.

Mr. STACKHOUSE. I have to say, that I am frank to admit that I have given no particular consideration to the matter, so that my answer will necessarily have to be offhand.

While I entertain no particular objection to it, in my judgment it would be far more equitable, though some people think more dangerous, to increase the rate on second-class matter.

Mr. GARNER. I agree with you on that. You are right about that.

Mr. OLDFIELD. We agree with you on that.

Mr. GARNER. I do not know what the Saturday Evening Post is going to say about that.

Mr. YOUNG. How about increasing both?

Mr. STACKHOUSE. If necessary to increase any postage rates a rule of equity should prompt you gentlemen to increase both, not necessarily proportionately, but equitably.

Now, I would like to direct the serious attention of you gentlemen to one very important and another exceedingly vicious element in our present tax laws that consideration should be taken of in connection with your present studies, and that is the vicious and destructive one of taxing undistributed earnings.

Of course, you all know better than I do—I am an amateur on these matters, and an unfortunate taxpayer—that the present law differentiates between corporations and partnerships.

I happen to be a partner, not a stockholder, and we are obliged to pay taxes on our individual portion of the entire—not profit—but book profits of the preceding year.

In our judgment both partnerships and corporations, being commercial entities, should be treated identically, in so far as taxation purposes are concerned, and the vicious proposition of ever taxing any undistributed earnings should be rescinded, in addition to the alternative that I suggested a while ago, and which I lack the temerity to repeat, and all business be stimulated, whether corporations or partnerships, by avoiding discriminations.

Mr. GREEN. You say that partners, simply because they are partners, should be eliminated from the undistributed profit tax, while the firm across the street in the same business which made the same profits in the same way, which is a corporation, should be taxed?

Mr. STACKHOUSE. No; I did not say that. I think that you misunderstood me.

Mr. GREEN. Then, where we would tax any income on your plan, I do not see.

Mr. STACKHOUSE. If we tax the income—and I have no objection to the theory of the income tax within reason—it has been carried beyond the bounds of reason—but if we are going to tax income let's tax income.

Now, I am never afraid, as a business man, of book losses. They never broke an individual or a company in this country, nor they never will, but what frightens me to death are book profits. And I am to-day paying in quarterly instalments, and let me say that I wish it was a dollar a week and a dollar as long as I live instead, taxes on my book profits last year which have since degenerated into losses.

Mr. GREEN. That is true with the farmers. The farmers have done that same thing.

Mr. STACKHOUSE. I am not suggesting that any partnership be exempted, nor am I arguing that corporations be exempted, but my suggestion is this: Let us tax income, actual, whether partnership, individual, or corporation, as the income is taken from the proceeds of the business as income.

Now, just a moment—

Mr. GREEN (interposing). My idea is that if you follow out your argument to its logical conclusion, we would never tax any income.

Mr. STACKHOUSE. I think not. I am advocating an income tax, but not the proposition of an income tax on income of our undistributed earnings. Now let us take the manufacturing business. I just happen to know a little more about that than anything else, and that is the reason I have selected it. Unquestionably a great percentage of undistributed earnings in the manufacturing business is comprised in its inventory, which no man can say definitely represents an actual loss or an actual profit until it is liquidated. Much of it represents buildings and equipment, which can not be liquidated at all.

Mr. GREEN. Well, that is it. Some will never be liquidated.

Mr. STACKHOUSE. It should not be taxed as income when it goes into business expansion. There is the devilish result of the present taxation law, in that it not only penalizes the company, but it absolutely prevents the maintenance of the proper economic status of this country.

Mr. FREAR. Could you not otherwise take all of the profits or income and put it back into the business, reinvest it, and thereby escape all new taxes?

Mr. STACKHOUSE. We could for a time, but in a very short time we would have an actual collapse due to such an expansion, if it were kept up.

Mr. FREAR. Now, if Congress, in its wisdom, refuses to make any change in the partnership proposition, with regard to undistributed profits, you believe that the corporations should be put in the same place?

Mr. STACKHOUSE. I do.

Mr. FREAR. There is no question about it.

Mr. STACKHOUSE. Now, if you gentlemen do not misinterpret my argument—I make rather a very vehement statement, simply to illustrate a point.

Suppose we put it rather bluntly, that Congress unintentionally, but nevertheless did, enact vicious legislation in the matter of taxation, and the viciousness of that legislation is apparently equal on everybody.

Mr. FREAR. But there is no viciousness—in the present——

Mr. STACKHOUSE. Provided they have a just foundation——

The CHAIRMAN. Mr. Stackhouse, your contention is that if corporations, individuals, or copartnerships should make a given sum of money in profits, say during last year, a half a million dollars, that it would be reinvested in added improvements, added buildings, added capacity, and it should not be taxed for the reason that it goes back into the business, to employ more people, and produce more stuff, and consequently pays a greater wage scale and would be a benefit in that way instead of being taxed?

Mr. STACKHOUSE. That is true, Mr. Chairman, with the exception if you will permit, and you, of course, have knowingly drawn a very extravagant picture. You did that knowingly, of course?

The CHAIRMAN. Yes.

Mr. STACKHOUSE. There is no manufacturer who could live 24 months who would expend 100 per cent a year.

The CHAIRMAN. Oh, I have just spoken of a sum, given a sum, which is purely hypothetical. It is not actual earnings. I mean, suppose you made that much money, and that it were not distributed, and you thought it wise to expand your business, and reinvest and increase your capacity and output, therefore you would increase employment or labor, and have a greater wage scale so that that would be a benefit to the community. That is what I intended to say.

Mr. STACKHOUSE. That is a very pertinent question. It is absolutely one of the most pertinent questions, as it is of paramount importance that business be expanded and that these frozen credits be liquidated with a large proportion of the profits of business to-day than that it be turned over to any Government to spend extravagantly, and I am only speaking of any extravagant expenditures, and I want to add this, that the Federal Government to-day, unwittingly, but nevertheless actually, has become an absolute accessory to the fact of causing hundreds of business institutions to fail. Our commercial morality in this country is unprecedentedly high, particularly as to liabilities, and the Federal Government, through its pernicious taxation methods, has become a party to that commercial tragedy in numerous cases.

Now, those are matters, gentlemen, that I think merit the most serious consideration of this commanding committee, and I think I will intrude no more on your time.

I wish to express my sincere appreciation for the marked courtesy that has been extended to me.

SALES TAX.

LETTER FROM CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA.

DEAR MR. CHAIRMAN: Revision of taxes, to which your committee is now giving attention, has had careful study from a committee of our organization and widespread discussion among the organizations in our membership. This discussion has been heightened by the prominence given to taxation in the program of our recent annual

meeting and through two referendum votes, taken in accordance with the procedure which fixes the attitude of our organization in accordance with the position taken by its constituent members.

Voting in the second of these referenda closed on Friday, July 22. At the earliest moment the ballots of the 545 organizations participating could be canvassed, we are placing the results before you, as indicative of the strong trend of opinion among business men's organizations.

The outstanding question in this referendum related to the sales tax. Our earlier referendum, concluded in the winter, was inconclusive on this subject. The present referendum shows a widespread preference for a sales tax, and almost equal sentiment in favor of a tax on turnovers as the proper form.

The exact questions used in this referendum, together with a statement of the circumstances under which the referendum was submitted, you will find in the pamphlet which we inclose. Upon the ballot we have written the number of votes cast in each instance, according to the preliminary canvass. In this connection we might add that the number of votes shown at the top of the second page, under A, represents only the votes which can be officially counted; actually, 1,170 votes were cast under A in favor of use of a sales tax and 108 in favor of an increased income tax on corporations. It happens, however, that all of these votes can not be counted, in the official canvass. Upon the final result, however, there is no effect, as the same votes were cast in favor of a sales tax under B, C, or D, where they can be counted officially.

As soon as possible, we shall prepare a printed tabulation showing the name of each organization which cast a ballot, and the exact manner in which it voted. This tabulation we shall send to you as soon as it comes from the press. Meanwhile, by way of illustrating the representative character of the results of the referendum, we may say that the organizations which cast ballots are situated in 47 States.

The referendum which has just closed was substantially a supplement to our earlier referendum, a copy of which we inclose, together with a bulletin showing in tabular form all the votes which were cast. The results of these two referenda commit the Chamber of Commerce of the United States to advocacy of:

Repeal of excess-profits tax; repeal of war excise taxes, both those on transportation and communication and those levied in relation to particular businesses; a tax on all turnovers to bring in such revenues lost through the repeals as the Government's necessities require; decentralization of administration of income taxation; ascertainment by the Government of any tax based on income before it is payable; a court or courts of tax appeals, entirely separate and independent of the Treasury Department; net losses and inventory losses in any taxable year should cause redetermination of taxes on income of the preceding year; an exchange of property of a like or similar nature should be considered merely as a replacement; gains realized from the sale of capital assets should be subject to lower rates than income received from business or other current activities; income from any new issues of securities which may lawfully be made subject to Federal tax should be taxable; American citizens resident abroad should be exempt from the American tax upon income derived abroad and not remitted to the United States.

The exact meaning of each item in the program advocated by us appears in the referendum pamphlet which we inclose, where our committee on taxation has also set out the considerations which it believed were determining.

In two respects the chamber's present program differs from the position it originally took. In the referendum of last winter there were 1,217 votes cast in favor of excise taxes upon some articles of wide use but not of the first necessity and 504 against. There were later some suggestions that a number of organizations had erred in marking their ballots, with a result that they were recorded in favor when they were in fact opposed to this tax. However that may be, the present declaration for a sales tax of the turnover form leaves no doubt that the chamber favors a sales tax, and not excise taxes. The second instance involves the income tax upon gains from capital assets. Last winter the members of the chamber voted that these gains should be allocated over the period in which they were earned and taxed at the rates of the several years in the period. At the chamber's annual meeting held in April the delegates representing the organization members took the attitude that this would not afford sufficient relief and that if, in the maintenance of necessary revenues, such gains are to be treated as income, they should be properly defined and then subjected to more reasonable rates, these rates to be lower than on income derived from business or other current activities.

Upon behalf of our organization, I ask consideration for the position taken by our members which the extended study given to questions of taxation would seem to merit. If the committee should wish a personal explanation regarding any point in

our procedure, or with respect to any of the items of the program of revision which we urge, I shall be glad to appear before the committee at any time the committee may indicate.

ELLIOT F. GOODWIN, *Vice President.*

BRIEF OF THE NATIONAL LEAGUE OF COMMISSION MERCHANTS OF THE UNITED STATES
IN OPPOSITION TO TAXATION OF FOOD.

The National League of Commission Merchants of the United States is a trade organization composed of leading and most reliable dealers in fruits and vegetables. It has a membership of 625 members, who are located in 78 cities east of the Mississippi River. Included in its membership are also shippers' and growers' shipping associations. It is now in its thirtieth year of successful operation and membership in it is recognized everywhere in the fruit and vegetable industry as an emblem of integrity and responsibility.

This organization is primarily interested in the producer of food, because on his welfare depends the welfare of the membership. It is also interested in the prosperity of the consumer, but first and foremost must come the producer. The producer can supply his own needs, but the consumer can not. It is not a sentimental interest that this organization has in the producer and consumer, but a vital economic interest.

This organization places itself on record as emphatically opposed to any form of taxation on the product of the producer and the requirement of the consumer, namely, food.

NECESSITY OF FOOD.

There are three vital elements necessary for the existence of man. Other elements only contribute to his comfort. Nothing can be substituted. The three elements are: Air, water, and food. So far the first two have escaped taxation, but it is now planned to tax the consumption of the third. The Supreme Ruler has provided generous quantities of air and water, but has made it necessary for man to exert himself to secure food. Why, therefore, should man add to the hardships imposed by the Supreme Ruler by placing a tax on the consumption of so vital an element to the existence of mankind? Would it not be wiser to tax those elements which contribute to man's comfort rather than his very existence? Would it not be advantageous to tax the least those elements which give him greatest comfort and tax the most those which contribute the least to his comfort? For instance, shelter is a great comfort to mankind but not vital, and it is available to all in some form or other. On the other hand, means of riding to and fro is a comfort to a lesser degree, but available only to those who can afford. Just taxation is based on the ability to pay. The degree of comfortableness of mankind is based on the ability to pay. Therefore, the two principles having the same basis, one should be measured by the other.

THE PRODUCER OF FOOD.

The producer, or the farmer, is vitally interested in quick realization on his seasonal efforts. He has spent weary hours in hard labor and thoughtful planning. He has met discouragement of adverse weather conditions and the ravages of insect pests and diseases. He must market the product of his toil at long range, risking the danger of transportation to market. We maintain, therefore, that the product of his toil, a product which is so vital to the very existence of the Nation, should not be taxed, and nothing should be placed in the way of returning to him as quickly as possible the rewards for his toil. We further maintain that a tax on food has a tendency to restrict its consumption to the lowest possible point. At present the producer or farmer is placed at a disadvantage by the present high freight rates and their accompanying taxes. Why should he be placed at a further disadvantage by a tax on his product? The present high freight rates and accompanying taxes will, if continued, restrict the producing areas to those in close proximity to centers of consumption. There are numerous cases on record where the product of the farmer did not bring freight charges, which means that he not only lost his product but money besides. Just analyze that last statement. A farmer devotes a season to raising five carloads of food and then consigns them to a commission merchant for sale. They arrive and meet a flooded market. Result: Sale at a price not sufficient to cover the high cost of transporting them to market. The farmer's agent in the city, the commission merchant, naturally tries to sell at as high a price as possible, since his commission depends upon the gross sales. Why, then, should we try further to restrict this sale?

A tax on food hinders its free movement in commerce and is a detriment to the welfare of the producer. Since the membership of this organization is economically interested in the welfare of the producer, it must unqualifiedly oppose any form of taxation on food.

THE DEALER IN FOOD.

This organization is primarily interested in perishable foodstuffs. Speed in handling is one of the prime requisites for successful marketing of perishable food products. The speed with which a consignment of perishables is handled determines to a great extent the amount of money to be returned to the producer. Unlike other industries, the handling of perishables in the great markets of the country must be done in the early hours of the morning and while the consuming public is yet asleep. The receipt of perishables for a day on a city market have been distributed to the four quarters of the city before the average reader of this has opened his eyes to greet a new day. Speed in handling being such a vital element, the dealer can not be hindered by unnecessary computations such as a sales tax would impose upon him if enacted. As he is working while it is yet dark, it would be extremely difficult to compute the tax on each basket of beans or each crate of berries sold. The average dealer would give up in despair and pocket the loss, hoping against hope he could make up his loss in some other manner. This would be rather difficult, since according to figures compiled by the United States Food Administration the average profit of commission merchants was less than 2½ per cent on their turnover. The word "turnover" naturally brings to mind the turnover tax. The membership of this organization is opposed to this form of taxation also, for the reason that it taxes the gross sales regardless of whether a profit has been made or not. In many instances in the handling of perishables great losses are suffered and it is unjust to further add to the loss by the imposition of a tax. A tax on food handled by the commission merchants can not be passed on to the consumer except in times of shortage. During periods of glutted markets resulting from overproduction the food must be moved regardless of what it will bring. Since the yield of food depends upon the Supreme Ruler, no forethought can be taken of the future price at which it will sell and no provision can be made to protect the business from loss resulting from taxation. The dealer is interested, as is the producer or farmer, in quick sales, and any form of taxation on food restricts its quick movement. He, therefore, objects to placing any obstacle in the way of free movement of food, which not only causes a loss of money, but actually results in a waste of food.

THE CONSUMER OF FOOD.

Food is vital to the existence of the consumer. If the producer is, as at present, hindered in the production of food by the present high freight rates and their accompanying taxes, and if still further hampered by the imposition of taxes on his product, the consumer alone must suffer since the producer can supply his own needs. Under the present high costs of marketing, production areas must be restricted to those in close proximity to consumption areas, resulting in shortage and consequent higher costs.

Congress passed the transportation act, enabling the Interstate Commerce Commission to increase the freight rates (effective Aug. 26, 1920) to provide an estimated additional revenue to the railroads of \$1,700,000,000 per annum. However, this act which only contemplated increasing the revenue to the railroads automatically increased the war tax on freight charges \$51,000,000. Without any increase in the amount of tonnage that was handled by the railroads in 1920, the war tax on freight charges will be about one-fourth of a billion dollars in 1921, based on the recent rate increase and on estimate of Mr. Julius H. Parmalee, director of the bureau of railroads economics, that Class I railroads had a gross revenue of \$6,200,000,000 last year.

A careful study of this matter, we believe, will show that any tax on transportation is wrong, in that it tends to restrict the free exchange of goods, and in that way operates like a tollgate. The tollgate has long since become obsolete in all progressive communities, being recognized as a wrong form of taxation, for the reason that it restricts the free use of the roads. Any tax that restricts the free exchange of goods is wrong and should be repealed; for transportation, or a free exchange of goods, is the most essential factor in the prosperity of this country.

Just taxation is based on ability to pay. A family of five with a much smaller income requires three times as much food as a family of two with a much greater income. It is not just.

CONCLUSION.

This organization is opposed to any form of taxation on so vital an element to existence as food.

It favors any form of taxation which places a tax on individual incomes with ample protection against evasion of taxation through nondistribution of profits by corporations, partnerships, and individuals.

It favors the application of methods of economy in the conduct of public business such as will bring about an early reduction in Government expenditures and thus avoid the necessity of discovering new methods of taxation. What business needs is relief from burdensome taxes as quickly as can be brought about, and, therefore, instead of searching for new methods by which the already thin pocketbook of business can be reached, the thing of paramount importance for this administration is to search out ways of quickly and materially reducing Government expenditures.

R. S. FRENCH,
General Manager and Secretary.

SETTLEMENT COMMITTEE—CLAIMS IN ABATEMENT.

FRANK S. BRIGHT, WASHINGTON, D. C.

The CHAIRMAN. Mr. Bright represents himself on the income tax. Is that right, Mr. Bright?

Mr. BRIGHT. Yes, but I am not here representing myself.

The CHAIRMAN. Well, we have you down here as representing yourself.

Mr. BRIGHT. I am not representing myself. I want to say to the committee that since 1909, I have had a good deal to do representing taxpayers before the Internal Revenue Bureau and the courts, and I have come to realize that certainty of taxes is of almost, if not quite as important to the taxpayer as the scale of taxation, and the only thing certain about the Federal taxes to-day is their uncertainty.

I should say—I am guessing—but my best guess would be that there are to-day \$1,000,000,000 of unadjusted taxes for the years prior to the last revenue act, 1918.

That is a terrible calamity to the business interests of the country. They do not know what day they are going to get a letter from the Internal Revenue Bureau immensely increasing their taxes, when they believe that they have already paid them, and have distributed this income—corporations have distributed their income.

Mr. GARNER. The law is perfectly plain as to how much they should pay.

Mr. BRIGHT. Well, there are more than 100 questions that are in process through the courts now as to interpretations of the law, sir.

Mr. GARNER. Well, sir, they are more or less brought about by the executive branches of the Government more than by the method of taxation, than the tax; is that not correct?

Mr. BRIGHT. Yes; I should say that is a fair statement of the proposition. .

Mr. GARNER. Well, now, how would you amend the law so as to make it so simple that there would be no question about it?

Mr. BRIGHT. I am not proposing to do that. I do not think that I am wise enough to do that. My first proposition is this, that the business organizations in America are spending less and less money in employing lawyers to carry on litigation, and getting the last dollar that is coming to the corporation, or the individual who employs the lawyer. In other words, it is a matter of settlement. Now, if the

law were amended to give the Commissioner of Internal Revenue—and I mention him because he is the person who will have to do it, do the work through the proper intermediary—I would suggest what I would call a settlement committee, and when a controversy arose with a taxpayer, let a committee of that kind be created which will sit down across the table with the taxpayer, and the taxpayer will say, "I admit that I owe you so much. You claim that I owe you so much. Let us settle this"; but then do not let there be any change in the accounts, on account of new rules or regulations or by any change in any law in the taxpayers' case.

Mr. LONGWORTH. Have you read the bill I introduced with regard to this proposition?

Mr. BRIGHT. I glanced over it and I know that you have got the germ of that idea in that bill.

Mr. GREEN. We passed a bill to that effect more than a year ago, but for some reason or other the Senate did not agree to it.

Mr. BRIGHT. The Senate did not agree. I would be very glad to help, if you passed it, I would be glad to appear before the Senate committee.

Mr. GARNER. Did you appear before the Senate committee and ask for a hearing when they were considering it?

Mr. BRIGHT. No, sir; I did not. If this committee should pass the bill I should be very glad to follow it up in the Senate, because I am not here in the interest of anybody except the taxpayer, the universal taxpayer, and the Government.

Gentlemen, you will get so much more money, and this is a time when you need the money, and you will get that money with far less administrative expenses, if you set up that kind of an agency.

Mr. FREAR. Mr. Bright, much of these taxes that are coming in now are coming in under the old tax laws, and came about through a misunderstanding on the part of the taxpayer and a lack of clearness in the earlier tax bills. Is that true to-day? Is it not a fact now that we understand pretty well—that is, the average taxpayer—so that they are not having the same amount of trouble they have had with the earlier taxes?

Mr. BRIGHT. Oh, they have more.

Mr. FREAR. Well, that is not the statement that the experts of the Treasury Department make to us.

Mr. BRIGHT. The cases that we are taking before the Treasury Department are taxes covered by the laws prior to 1918, and we have very few cases with regard to the taxes since the 1918 act, and the issues between the taxpayer and the Internal Revenue Bureau to-day have to do with the tax bills passed prior to the 24th day of February, 1919. And I speak advisedly, because I have very few cases in my office—

Mr. FREAR. I hope that we understand each other. What I understand is that the taxpayers do understand better the laws passed at a later date, and that they are conforming to them, and there are not the differences, or at least there are less differences to-day than there were originally?

Mr. BRIGHT. That may be. There may be less, but still they are very annoying and there should be some way to take care of them.

Mr. FREAR. There is no question but what your proposition would be a good one. I am simply stating the information that comes to us.

Mr. BRIGHT. The courts have hardly begun to touch these questions arising under the 1918 law. I know of only two 1918 questions that have been touched upon by the Supreme Court, and, of course, the Supreme Court is the last word.

Now, I have one other suggestion to make to the committee, and that is this: When you passed the 1918 bill you provided in section 250 that as to any such an amount, that is, unpaid taxes, not paid when due, which is subject to a bona fide claim of abatement, to such sum 5 per cent shall not be added, and the interest—this is what I want to ask your attention to—the interest at the same time on the amount due to the time that the claim is decided shall be at the rate of one-half of 1 per cent a month. That, I think, is capable of being construed as to the law prior to the 1918 law. It is construed by the Internal Revenue Bureau as only affecting the 1918 law. The result is that if a taxpayer files a claim in abatement, he is subject to a loss and will have to pay interest at the rate of 1 per cent per month until the claim is settled, although he is doing everything in his power to get the matter settled.

Let me give you one illustration: I know of one case where the taxpayer filed a claim in abatement under the 1917 law to the amount of \$236,000. The Internal Revenue Bureau has been so overwhelmed with the work that it has had to do that it took 26 months to get to that matter. It was adjusted so that the taxpayer, who was doing all he could all of the time, and was just as anxious as he could be to get the matter settled, secured an abatement of \$136,000, so that the taxpayer, when he came to settle with the Treasury Department, paid over the \$100,000, and a penalty as interest of \$26,000.

Now, my other suggestion then would be—

Mr. GARNER. Just let me ask you one question there. What would have been the situation if he had made a full payment? Could he not have recovered back without any question from the Government all of the overpayments that he had made?

Mr. BRIGHT. Yes; but if he had made that overpayment, then he would have been out the use of his money for 26 months and would have been out the interest on his money, and it would have taken much longer to have gotten it back, and when he got it back he would not have gotten any interest at all. And under the present condition taxpayers as a rule have very little money to tie up that way.

Under the 1918 law, the taxpayer is charged only one-half of 1 per cent when he files a claim in abatement. I think that he should be given that privilege under the previous law. And this Government does not need to make money from the taxpayers by charging them 1 per cent a month in cases of this kind because even yet they can get money at 6 per cent per annum, and I say that the new law should make it the same with regard to all cases of claims in abatement and not only with regard to those under the 1918 law, but under the new plan, or under the new law, they should bear interest at the rate of one-half of 1 per cent per month.

I am very much obliged to you.

SPENDINGS TAX.

HON. OGDEN L. MILLS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK.

Mr. MILLS. Mr. Chairman, I desire to address myself specifically to the bill introduced by me, H. R. 7867, which provides for what I have described as a spendings tax. Now, the tax situation, so far as I see it, includes two prime factors: The first is, of course, the question of revenue for the Government, and the second is obtaining that revenue with the minimum of friction and with the minimum of damage to the business community. Our present system of taxation—and I am not discussing the corporation tax at this moment—is open to the charge that it fails to meet both of those tests. It has caused the maximum of damage to the business interests of every community, and it is yielding a diminishing return, so far as the Government is concerned. There is need every year in this country, and in any country that is a growing and expanding country, additional liquid capital for the development of its industrial enterprises, and that includes all industrial enterprises, both the farm and the factory. There is needed a growing amount of liquid capital, which is usually furnished in the form of bonds or securities. That capital can only come from the savings of the community as a whole. It is limited in amount, in so far as its liquidity is concerned.

To-day, what are we doing? We are doing one of two things: We are either, through the very high surtaxes, sending our liquid capital, that should be available for the productive enterprises and industries of the country, into the unproductive channels of Government expenditures, or else we are driving it into tax-exempt securities, or into very much less legitimate means of evasion. There is no disputing that fact, and the result has been—I am not going to claim that the present business depression, which is world-wide, can be attributed to the shortage of liquid capital, but I want to say to you gentlemen that, in my judgment, that is one of the most important contributing causes. If you will take the housing situation alone, it is estimated that young men of a marriageable age to the extent of 1,000,000 are reaching that age every year. That means that 1,000,000 new homes are needed in the United States every year. Now, you must admit that the money for those new homes is not available at reasonable rates of interest, so that the whole building industry has been held up, and I think that has had a very material effect.

Mr. FREAR. If a building is put up, would you say that it was fair to tax that building, or tax the farmer's land, instead of the money that is spent by the owner?

Mr. MILLS. I do not quite get your question.

Mr. FREAR. Of course, the man who builds, or the man to whom the building belongs, expects to get some return from the building.

Mr. MILLS. Yes, sir.

Mr. FREAR. And the farmer who has a farm expects to get some return from his farm. As I understand your bill, it provides a tax on the spending.

Mr. MILLS. Yes, sir.

Mr. FREAR. By way of illustration, suppose you get \$100,000 a year and spend \$5,000. Then, on the \$95,000 that you do not spend, your theory is there should not be any tax?

Mr. MILLS. No, sir; it will be taxed.

Mr. FREAR. What percentage?

Mr. MILLS. If you will permit me, I will come to that when I have disposed of the general principles involved in the bill. It seems to me that they are very important, and unless I can prove my case—that is, that liquid capital is being driven into Government securities or tax-exempt securities, and is not available for business purposes, and that that has resulted in business depression, restriction of credit and high interest rates, which necessarily have a disturbing effect on all business—I would lose one of the chief arguments for my bill.

Mr. FREAR. Is that the reason for high interest rates to-day—that is, that the money is being driven into tax-exempt securities?

Mr. MILLS. Without question.

Mr. FREAR. Have you any figures to show that?

Mr. MILLS. I have. Of course, the question is not susceptible to mathematical proof. If you will take my judgment, I would say that it is true beyond question, for this reason, that in order for a man who has to pay the maximum rate to earn the equivalent of 4½ per cent upon tax-exempt securities, he would have to earn 16.65 per cent on an investment in a manufacturing enterprise.

Mr. FREAR. Do you not believe that the question of what profit can be paid out of a business has a great effect upon the interest rates in the country, or is it not a rule of business that the returns that can be had must determine what rates of interest the business can afford to pay?

Mr. MILLS. Yes; but they can know pretty well what return they can get. It is my own business experience in New York that when people come in and offer me what they consider the very best securities, they are tax-exempt securities every time. They show you how you can make a net return of 5½ or 5¾ per cent.

Mr. FREAR. What would you say to the removal of those securities from the market?

Mr. MILLS. It ought to be done. There should not be any tax-exempt securities of that kind. It is wicked and indefensible that a man should be permitted to have \$15,000,000 worth of them and escape taxation.

Mr. FREAR. Then, why does not Congress make provision against them?

Mr. MILLS. It would take two or three years to do that, and, even so, you would not dispose of the existing securities.

Mr. GARNER. Have you examined into the question of the constitutional power of Congress with reference to levying taxes on securities in the future?

Mr. MILLS. Without a constitutional amendment?

Mr. GARNER. Yes.

Mr. MILLS. In my judgment, it could not be done.

Mr. GARNER. There is a difference of opinion among the legal profession on that question as to the power of Congress to levy taxes upon securities to be issued in the future. I asked you that question for the reason that it seems to be universally desirable to take those securities out of the tax-exempt class. Now, why could not Congress put that question up to the Supreme Court and say that there is a division of opinion on the subject, so that all future income from future

securities of municipalities shall be subject to the income tax, and let the Supreme Court tell us exactly what the law is?

Mr. MILLS. I think that any road that leads to that much desired result is the road to be traveled.

Mr. GARNER. The road to Rome is on my right here. It leads absolutely in that direction.

Mr. LONGWORTH. If you will recall, I was probably as much in favor of that proposition as you were. If you will recall it, we had a provision in the 1918 revenue law of that sort, but we received an opinion from the Department of Justice that it was unconstitutional.

Mr. GARNER. As I have said, there is a division of opinion among high-class lawyers of this country as to the power of Congress to do that. There seems to be a universal desire upon the part of Congress that it should be done, and I am willing to pass it up to the Supreme Court.

Mr. MILLS. The trouble about that would be that until its constitutionality was determined you would have a difficult situation with the municipalities not knowing where they stood and not being able to issue their securities. We had a similar situation within the last month in New York, where the constitutionality of a particular bond issue was questioned, and you could not market the bonds. That bond issue was for the purpose of paying the soldiers off.

Mr. FREAR. That is frequently true. How would you get this question settled?

Mr. MILLS. I would amend the Constitution.

Mr. FREAR. You would wait for that?

Mr. MILLS. Yes, sir; I would amend the Constitution.

Mr. LONGWORTH. Have you anything to show the total amount in which nontaxable securities have increased in the past two years?

Mr. MILLS. No, sir; I have not, but I do know that it is a very considerable amount.

Mr. LONGWORTH. My impression is that it is something over \$4,000,000,000.

Mr. MILLS. The New York market is literally flooded with them, and very little is done now in anything but tax-exempt bonds.

Mr. WATSON. If you had no tax-exempt securities would the rate of interest be higher?

Mr. MILLS. No, sir; the rate of interest would drop for industrial enterprises.

Mr. WATSON. In Pennsylvania we have a tax of 4 mills upon such securities and the borrower pays that 4 mills.

Mr. MILLS. I have not investigated the Pennsylvania law for five or six years, but, as I understand it, it was not very successful. You did not make very large collections under it. Let me call your attention to this fact, that in so far as State taxes on securities are concerned, the price of those securities is governed by a country-wide and even world-wide market, and they could travel easily from Philadelphia to New York where the sale would not be affected by the State tax.

Mr. WATSON. I was speaking of mortgages. They are affected by the State tax, because the 4 mills is added and must be paid by the borrower.

Mr. MILLS. In so far as a mortgage is concerned, but I was speaking of securities—

Mr. WATSON. Do you not think that the interest rate would be higher for the municipality?

Mr. MILLS. You mean the municipality would pay more?

Mr. WATSON. Yes.

Mr. MILLS. It would pay more, unquestionably. The point is this, that at a time when business enterprise and industry are flat on their backs, municipalities are going ahead and making large unproductive expenditures, simply because their happens to be a money market that is favorable.

Mr. LONGWORTH. Those questions regarding the Pennsylvania tax have absolutely nothing to do with this bill. That is a profits tax, or that is a tax on the total amount of the bonds or personal property. It is not a tax on income.

Mr. MILLS. No.

Mr. WATSON. It is a tax upon income. They have to pay a tax of four mills.

Mr. MILLS. Of course, that affects the price, or the question of what you get for your money.

Mr. WATSON. Would not the rich man get the advantage in the matter of securities if the interest rates were higher for municipal bond issues?

Mr. MILLS. If you do not mind, let us not discuss at the present moment the advantage that the rich man would get.

Mr. WATSON. I thought we were discussing that.

Mr. MILLS. I want to discuss the question now from the standpoint of those two propositions, that is, that the business depression from which the country suffers now is because of the need of additional liquid capital, which is now going into tax-exempt securities, or, to the extent that the Government collects it, it is going into the unproductive channels of Government expenditures.

The second proposition is to be considered from the standpoint of revenue. If you want to contend that the rich man would get an advantage from the fact that on money saved and reinvested you will charge him a less rate than you are charging him now, I might as well answer it now, and this is my answer, that he will get that benefit anyhow, because you are not collecting the taxes to-day. In the second place, you never can collect them, because the whole experience of this country and of every country in the world is that you can not collect from 60 per cent to 70 per cent of a man's income in the form of taxes. It has not been done and it can not be done. That is particularly evident when you consider the many legitimate means of evasion. We have tried to collect personal property taxes in this country for 75 years in every State in the Union, and where they have rates as high as 40 per cent there is not a State in the Union where they are successfully collected. There is not a State in the Union that has successfully collected personal property taxes on intangible personal property, even with the strictest kind of listing laws and the strictest kind of penalty. In my own State the personal property tax was a joke. When men were required to list their property they simply perjured themselves. They thought nothing of that, because everybody was doing it and nobody considered it wrong.

Mr. FREAR. They did that all around the country.

Mr. MILLS. Yes, sir. They did that because the rates were so high that they felt that they were justified in evading it. Now, prior to the war a 15 per cent tax was the highest income tax that, I think, had ever been successfully collected, and that was collected in one or two German cities. Prior to the war no country had ever attempted to collect an income tax at such rates as exist to-day, simply because they recognized that it would be impossible to take half or more than half of a man's income, considering the many ways he would have of beating the tax. He is beating the income tax to-day. He is beating it through the so-called system of losses, which is a very difficult thing to stop, or, when he can not show a loss, he is beating it by giving the security or profit to his wife and she sells it and makes the profit. I know there is a bill before you that is supposed to meet that situation, but when you close that door, he will open another. Therefore you can not say that your present tax is being collected, and that is a sufficient answer to what you say in regard to the advantage to the rich man. The figures bear me out in that. In 1916 from incomes of from \$150,000 to \$300,000 there was reported over \$500,000,000 for tax purposes, while in 1919 that figure fell to \$371,000,000. In 1916 from incomes of from \$300,000 to \$500,000, there was reported over \$271,000,000, and that figure dropped in 1919 to \$159,000,000. From incomes of from \$500,000 to \$1,000,000, there was reported in 1916, \$256,000,000, in round numbers, and that figure fell in 1919 to \$128,000,000. From incomes of \$1,000,000 and over, there was reported in 1916, \$464,000,000, and in 1919 that figure dropped to \$152,000,000.

Mr. FREAR. What proportion of those investments were in tax-free securities?

Mr. MILLS. It is impossible to say.

Mr. FREAR. The Treasury Department has reported them, and Mr. McKenzie referred to them in the table he inserted.

Mr. MILLS. Let me call your attention to this fact, that from 1916 to 1919 the money in circulation was doubled and bank deposits were doubled. There is not the slightest manner of doubt that those large incomes were doubled, and yet we find that three years after 1916, when the maximum rate had been applied, they were actually reporting less taxable income than in 1916. In 1919 they were only just beginning to learn how to get from under the income taxes.

Mr. FREAR. If the Treasury report shows that in 1918 the total average investments as returned by those men with great fortunes showed not to exceed 18 per cent in tax-free and all other kinds of securities, and that about 75 per cent of the higher incomes came from dividends, what would be your answer?

Mr. MILLS. my answer would be that they had only barely started in 1918. That was the first year that the high rates had been applied.

Mr. FREAR. Did you refer to 1916?

Mr. MILLS. I took 1916, because 1917 is the year when the maximum rates were passed and they were applied in 1918. Now, if we go a little further, and these are just estimates which are gotten from the Treasury Department, and they do not want to have them considered as official, you will see that the net income from incomes of over \$100,000 reported for taxation purposes fell from \$990,000,000, approximately, to \$600,000,000 in 1920. Of course, the returns were

not complete, but they made enough analyses of specimen returns to give that estimate.

The CHAIRMAN. You have occupied 20 minutes' time, Mr. Mills, and I will ask you to be brief.

Mr. MILLS. The return dropped from \$469,000,000 in 1918, to \$270,000,000 in 1920. The estimate for the income tax for 1921, and the normal surtax, is about \$800,000,000. The estimate which Mr. McCoy gives me, providing you repeal the surtax and leave the normal tax, and substitute a spending tax for the surtax, is just \$800,000,000; so that you can make this change without losing one cent of revenue, and from now on, I venture to say, this tax will become increasingly productive as compared with the tax on income.

Now, if you will give me a few minutes, I would like to take up another phase of it.

The CHAIRMAN. We have limited the other gentlemen who have appeared. We will be very glad indeed to give you a few minutes longer, but I hope you will be as brief as possible.

Mr. MILLS. I hate to trespass upon the time of the committee, but I feel very strongly that this is a solution of your troubles.

Mr. FREAR. You spoke about the condition of the trade relations of the country and attributed it to the heavy taxation. What is the relation of transportation expenses to that? What is the relation of transportation expenses to production, and what is the relation of our foreign trade to it?

Mr. MILLS. Every one of those subjects that you have mentioned is an important factor. I have mentioned one important factor.

Mr. YOUNG. You can discuss those questions in your brief, can you not?

Mr. MILLS. Yes.

Mr. FREAR. I would like to hear Mr. Mills discuss those questions.

The CHAIRMAN. Will five minutes be sufficient?

Mr. MILLS. I would prefer to have 10 minutes.

The CHAIRMAN. You may proceed for 10 minutes.

Mr. MILLS. With a view to meeting this situation, there have been two solutions proposed. One is to reduce the surtax, as suggested in Mr. Longworth's bill, to 40 per cent. My answer to that is that while it may improve the situation it does not cure it, because the temptation to invest in tax-exempt securities is too great to be removed by that reduction of 40 per cent. The other suggestion is the proposed sales tax. I will not discuss that, because you gentlemen know all the arguments for and against the sales tax. In my judgment a sales tax is not the answer. The answer, in my judgment, will be found in a tax which combines the advantages of the sales tax, and yet maintains the principles underlying our tax system.

I think that the people of this country believe in a system of taxation graduated in accordance with ability to pay. How can we take those two principles and embody them in a tax? I did it on the principle of taxing a man on what he spends, at a graduated rate. I give the single man \$2,000 to start with as an exemption; I give the family man \$4,000; I exempt such matters as medical expenses, and then on the rest of it I say you shall pay a tax at a rate which rises from 1 per cent to as high as 40 per cent, reaching the maximum at \$50,000. On everything that a man spends he is taxed, and on everything that he saves and returns to the capital of the country, for the pur-

pose of productive enterprise, he pays a 10 per cent tax. I accomplish two things. In other words, I put a penalty on extravagant living, at a graduated rate, and I encourage thrift. I give to the business enterprises of this country and to capital a positive inducement to leave tax-exempt securities and to return to the normal channels of productive expenditure. This tax not only does not do what most taxes do, apply a brake to industry and to commerce, but it gives them capital and an incentive to return that capital into enterprise, because it taxes only that income which is spent extravagantly and for unproductive purposes. Of course, on a certain amount of this income you would not pay as much, but you should not pay as much on savings. Savings are an actual benefit to the country and they ought to be encouraged. You ought not to tax them as much as you tax the money that is spent. If we can accomplish this—

Mr. GARNER (interposing). How would you enforce this law?

Mr. MILLS. The machinery of the income tax is available for this law, and the return is not any more complicated. The people who keep books will have no difficulty whatsoever and the people who do not keep books will have no further difficulty than they have to-day. As a rough test there will be the assets and capital available and on hand at the beginning of the year; the total income during the year and the assets on hand at the end of the year. That rough test will give you what the expenditures are.

Mr. FREAR. Following Mr. Garner's question, take \$1,000 that you may have spent during the year for a public dinner, or something of that kind. Where is that going to enter into the question?

Mr. MILLS. Well, you will not ask a man to list everything he spends for his dinners, etc.; you are going to determine it in gross amounts.

Mr. FREAR. How are you going to ascertain what is spent and for what purposes?

Mr. MILLS. I am not interested in the purposes; I am interested in what he saves during the course of the year. Those are the rough tests. A man with an income of \$50,000 shows that he has assets on hand at the beginning of the year, in securities and cash, let us say, of \$1,000,000; he shows an income of \$50,000, and he shows \$1,050,000 on hand at the end of the year.

Mr. FREAR. I can see many objections, at least, they occur to me. Has any tax expert in the United States, or elsewhere, ever adopted or suggested that plan?

Mr. MILLS. Yes. Dr. Adams tells me that he thinks it is easier administratively than the present tax, and he heartily approves of it in principle.

Mr. FREAR. I mean, by any writings, or anything of that kind.

Mr. MILLS. Not in its present form, but it was first tried, from a historical standpoint, in England at the end of the eighteenth century and in France at the end of the eighteenth century. They did not put it in the form of a return based on income, because that idea was taken from the income-tax plan. But what they did was this: They took a number of arbitrary tests. For instance, so many servants indicated that you spent so much, and the French window tax was derived from an attempt to reach what was spent.

Mr. FREAR. What is the difference between the French window tax and the man who is taxed on his farm and real estate?

Mr. MILLS. Because that is a tax directly on the value of the real property determined by an assessment, while the French window tax is simply an attempt to ascertain what a man's means are, because presumably a house with a lot of windows is owned by a man with large means.

Mr. LONGWORTH. Was not that the principle on which the carriage tax was levied during the Civil War?

Mr. MILLS. Yes, exactly.

Mr. YOUNG. To go back to the case you spoke of, you mentioned a manufacturer making a return of \$40,000. How is your tax applied to that?

Mr. MILLS. If he is a married man he gets an exemption of \$4,000, and he is taxed on \$36,000 at a graduated rate running from 1 per cent to 40 per cent. He pays on the \$10,000 which he saved a normal tax of 10 per cent.

Mr. YOUNG. And a higher tax on the other?

Mr. MILLS. Yes, sir; on the \$36,000 he probably pays 35 per cent. So he has a positive incentive to save \$10,000. Under my plan you will do away with losses; you will do away with gifts; you will meet directly the tax exempt problem, and you will have this great additional advantage of putting partnerships—and let me call the committee's attention particularly to this fact—and corporations on something like an equal basis, because our partnerships are paying an income tax of 60 and 70 per cent, whereas the corporations are only paying the normal tax of 10 per cent, plus the excess-profits tax, which has practically ceased to exist. If you tax the individual partners on their spendings and do not tax them on the money reinvested you put them on the same basis as corporations.

The CHAIRMAN. Mr. Mills has occupied his extra 10 minutes.

Mr. GARNER. May I ask him one question?

The CHAIRMAN. Yes; one question.

Mr. GARNER. Your theory is to do away with the surtax and continue the normal income tax?

Mr. MILLS. Yes, sir.

Mr. GARNER. Do away with the surtax?

Mr. MILLS. Yes.

Mr. GARNER. Why could you not follow your method in addition to the surtax? It could be done, could it not?

Mr. MILLS. Yes; it could be done.

Mr. GARNER. I do not want to do away with all surtax, but you have made a very ingenious argument and one that is very convincing to me in this particular, that between a sales tax and your tax, yours is much preferable.

Mr. MILLS. I think so. I think mine is the answer to your problem.

Mr. FREAR. Suppose you make \$100,000 and you only spend \$5,000. What would be the tax on the \$95,000?

Mr. MILLS. Ten per cent. But that, of course, would go right back into capital invested in the United States, Mr. Frear, and help employment.

Mr. FREAR. I was trying to get your theory.

LETTER FROM HON. OGDEN L. MILLS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK.

THE SPENDING TAX.

GENTLEMEN: The country is at present suffering from unparalleled business depression, affecting, with varying degrees of severity, every industry and every wage earner. There are a number of causes, some of which are clearly beyond the power of legislative remedy; but there is one important contributing factor that can be effectively dealt with by congressional action. I refer to the system of excessive direct taxes which has deprived the country of the accumulation of surplus capital needed for the normal expansion of the country's business. Taxes which either drain liquid capital into the unproductive channels of governmental expenditure or cause it to seek security from excessive imposition in tax-free securities, necessarily result in trade depression, restriction of production, and excessive demands for credit. Taxes must be paid in cash, and that means that if too large they absorb the comparatively limited capital in the form of liquid or quickly available assets. This is the very capital essential to a revival of business activity.

The steady employment of labor at remunerative wage depends upon the fluidity of capital. Taxation which drives capital out of enterprise stops the wheels of industry. The burden of such stagnation necessarily bears heaviest upon the lowest paid individual. Our present system has proved beyond contention the fallacy of legislation enacted on the theory of taxation of the rich alone and has demonstrated that in practice such a theory tends to freeze capital, and thereby drive labor out of employment. If capital is once more to become free to perform its essential functions, the present surtaxes on income must be either materially reduced or repealed and a fair substitute devised.

The arguments that can be urged against the present surtaxes on income are: that they deprive commerce, industry and agriculture of the liquid capital necessary to their prosperity; that their productivity is steadily decreasing; that they can not be successfully collected, and that the attempt to collect them in the long run must demoralize and discredit the whole system of income taxation.

There are outstanding in this country at the present time anywhere from 12 to 15 billion dollars of municipal bonds and other tax-exempt securities. The interest which they pay is practically exempt from taxation. A rich taxpayer subject to the 8 per cent normal and the 65 per cent surtax would have to receive 16.67 per cent interest on a taxable security to make it as profitable to him as a 4½ per cent tax-free bond. The growing volume of tax-free securities puts a premium on State and municipal borrowing; makes it easy for States and municipalities to undertake public works and embark on dubious industrial projects; stirs up class hatred by creating a class of citizens who are wealthy, but exempt from taxation; and tends eventually to demoralize the whole system of progressive income taxation.

Moreover, it is impossible to collect successfully in time of peace taxes which take more than 70 per cent of the income. The universal failure of the general property tax when imposed at the regular rate on securities and similar intangibles is sufficient proof of this statement. And its reality is illustrated by the fact that, with the adoption of the heavy war surtaxes in 1917, the taxable incomes in excess of \$300,000 reported for Federal income taxation fell off from over \$950,000,000 to some \$390,000,000 in 1918 as compared with 1916. Taxable incomes of over \$100,000 reported only \$600,000,000 in 1920 as compared with approximately \$990,000,000 in 1918, while the tax collected on those large incomes fell off from approximately \$470,000,000 in 1918 to \$270,000,000 in 1920. Prior to the war no country or State had successfully administered and collected an income tax in excess of 15 per cent.

Recognizing the serious evils arising from this situation, there are those who would reduce the surtax rates on income to a maximum of 40 per cent. But, in my judgment, this reform is altogether of too mild a character. The personal property tax did not, on the average, exceed 40 per cent of the income from intangibles. Yet it could not be collected. And a tax-free security will continue to look attractive to an investor called upon to contribute 40 per cent of his income for the uses of Government. Others would do away with the surtaxes entirely and substitute therefor an indirect tax in the form of a general sales tax. I can not agree with these gentlemen.

From the administrative standpoint, the sales tax would add an enormous burden to the Internal Revenue Bureau of the Treasury Department. I know that it is contended that the sales tax is a very simple tax, but from past experience it is doubtful whether any tax which involves the payment of such a large sum as a billion and a half dollars can be collected without considerable difficulty. As long as the amounts involved are small, questions of interpretation are not raised, but when the amounts

become really important, any number of intricate and doubtful points come to light. Moreover, it is a new tax and a new machine would have to be created to administer it.

In the second place, if the sales tax is passed on to the consumer, we are imposing a burden of a billion and a half on the shoulders of those least able to bear it, that is, the people of moderate incomes who have to spend the major part of those incomes for the necessities of life. In 1910, it was estimated that of the goods consumed in the United States, 70 per cent were consumed by people with incomes of less than \$1,800 a year. The sales tax is a consumption tax, and as such, regressive in character and bears no relation to ability to pay.

In the third place, if it is not passed on, and I, personally, do not believe that in the present condition of business stagnation it can be passed on in many lines of industry—it becomes a tax on gross income, which has to be absorbed by the business, and as such, is unequal and, in its incidence, inequitable. Gross income is admittedly, one of the poorest measuring sticks of ability to pay. It is largely dependent on the rapidity of the turnover and does not give any indication of the net income on which taxes should be based and from which they must be paid.

But we can not simply abolish the surtax on income. The Government needs the money, and I believe that the country is convinced of the soundness of the principle of taxation at rates graduated in accordance with ability to pay. What then?

The answer to these apparently contradictory propositions to repeal the surtaxes on income and to maintain the principle of a graduated income tax will be found, I believe, in the terms of the bill introduced by me, which provides for the imposition of what may well be called a spendings tax.

The spendings tax is a tax on all expenditures for personal, living, and family purposes of every citizen or resident of the United States made during the calendar year, but not including the following items:

(a) All the ordinary and necessary expenses of carrying on a business, trade or profession;

(b) Taxes, except spending taxes;

(c) Gifts for charitable or educational purposes;

(d) Medical and dental services, and funeral expenses.

(e) Investments made during the year, including real estate, except in the case of the purchase of a home when the taxpayer already owns one.

(f) Insurance premiums.

An exemption of \$2,000 is allowed to a single man or woman, and one of \$4,000 to the head of a family or to a person having one or more persons wholly dependent on him or her for support.

The tax is imposed at a graduated rate, which increases 1 per cent for every \$2,000 spent up to \$18,000, and thereafter 1 per cent for additional \$1,000 spent up to \$50,000. All spendings in excess of \$50,000 are taxed at the rate of 40 per cent.

Every individual whose spendings exceed \$2,000 for the preceding calendar year shall make a return on or before the 15th of March in such form as the Commissioner of Internal Revenue may provide. In particular he may be required to return the following information:

(1) Cash or equivalent assets on hand at the beginning of the taxable year.

(2) Total receipts, including amounts borrowed.

(3) The amounts of the items exempt from taxation, including investments.

(4) Cash or equivalent assets at the close of the taxable year.

The tax is not made applicable to the spendings of the year 1921, but in order to meet the existing emergency the bill provides that the largest rate of surtax on income received from the date of the signing of the act to the end of the calendar year shall be 35 per cent. After 1921 all surtaxes on income are abolished, and the spendings tax substituted therefor.

The administrative provisions are substantially those of the present personal income tax act.

The arguments that can be urged, in all fairness, in favor of this tax are as follows:

Since all income saved and invested will be exempt from surtaxes, it will free surplus liquid capital and make it available for the needs of agriculture, commerce, and industry. It will solve the tax-exempt security problem. It will shut the door to the escape from income taxation by means of losses and gifts. It will promote thrift and discourage extravagance. It can fairly claim the virtues of the sales tax, being in effect a tax on money spent for consumption, without being regressive in character or laying a disproportionate burden on those least able to bear it, and without being open to the serious evils which arise from the pyramiding of the tax. It maintains the principle of a graduated tax based on what economists have held to be true income for taxation purposes. It does away with the discriminatory burden now laid on partnerships as compared with corporations and puts them on an equal basis. It

will yield at least as much as the present law, and while making use of existing machinery, it should prove easier to administer since we will have eliminated the principal means of evasion.

If we adopt this proposed measure, and in addition repeal the excess-profits tax, which no matter how attractive in theory is inequitable in practice and administratively impossible, we shall not only have laid the foundation for a sound and permanent system of taxation, but for an early business and industrial revival.

Existing tax evils can not be cured without a major operation. The country expects one. It will not be satisfied with timid tinkering which will necessarily fall short of what the situation demands.

TAX-EXEMPT SECURITIES.

HON. LOUIS T. McFADDEN, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA.

Mr. McFADDEN. Mr. Chairman and gentlemen of the committee, I desire to address myself briefly in regard to House joint resolution 102, which is now in your committee, introduced by myself on May 3, 1921.

This is a resolution providing that favorable action may be taken by your committee to provide against further issuance of tax-exempt securities, and in that connection—

Mr. FREAR. That is, tax-exempt securities?

Mr. McFADDEN. Tax-exempt securities. I would like to point out to the committee that the continued issuance of tax-exempt securities is a menace to the credit standing of the Government of the States and of the political subdivisions of the States. It is rapidly tending toward property confiscation and is materially delaying the industrial progress of the Nation.

I desire to stress the above points as constituting a national evil, unparalleled in the history of the country. The creation of two classes, the wealthy, free from the burdens of taxation, and the workers, who are forced to bear the burden of which the wealthy are relieved through the purchase of tax-exempt securities, is a violation of social justices which is crystallizing in broad public opposition and discontent as the issuance of tax-exempt securities expands.

Reliable authorities have estimated that there are \$14,425,000,000 of tax-exempt securities that have been issued up to January, 1921.

Mr. GARNER. Who is that reliable authority?

Mr. FREAR. That is what I was going to ask him.

Mr. McFADDEN. Otto H. Kahn.

Mr. GARNER. When did he come to be recognized as an authority on such subjects?

Mr. McFADDEN. I would say that the gentleman has investigated this matter very, very carefully, and he has consulted the best statistics available, and it is his definite conclusion.

Mr. GARNER. Mr. Kahn appeared before this committee and we had the pleasure of hearing him, and he made some very valuable suggestions to the committee, but I do not think that there was anything really definite as to the amount.

It seems to me that you gentlemen in coming before the committee and furnishing these figures would consult the Treasury Department, which is at least supposed to be the best authority on these subjects, to get definite information.

Mr. McFADDEN. I will say to the gentleman that I have submitted the statements to the Treasury Department and they have not refuted them, they have not even yet given me the definite amount, but I believe that there is an excess of \$10,000,000,000, and I believe that there is in excess of \$14,000,000,000.

Mr. HAWLEY. Secretary Mellon's letter stated that there was over ten billion.

Mr. GARNER. Well, of course, a little thing like \$4,500,000,000 is merely a bagatelle. Just go ahead.

Mr. FREAR. I will say this, that when the committee—

The CHAIRMAN (interposing). Now, you gentlemen are taking up valuable time in discussing this amount that does not help us any. Do you think that the Federal Government has the constitutional right to tax State or municipal bonds?

Mr. FREAR. Mr. Chairman, I desire to state, that I asked Mr. Leffingwell about that, and he had made an examination of that subject, and I suppose that your statement is about right, from what he said.

Mr. McFADDEN. I will say to the gentleman that we have examined a good many sources of information and I am inclined to believe that the statement I am making here is correct.

Mr. GARNER. Well, what about the legal point? Can Congress tax the securities of States?

Mr. McFADDEN. I am proposing an amendment to the Constitution to provide for that, because of the recent decision of the Supreme Court.

Mr. GARNER. Well, what committee has jurisdiction over constitutional amendments?

Mr. McFADDEN. The Ways and Means Committee has my bill.

Mr. GARNER. To amend the Constitution?

Mr. McFADDEN. It is in your committee. It was referred to your committee by the Speaker of the House on May 3, 1921, and is now before your committee.

The CHAIRMAN. I would say that all of this is aside from the question.

Mr. GARNER. Let me ask just one other question, if I may, so as to get it in the record. Do you expect to include this proposed amendment in this bill?

Mr. McFADDEN. Why, that is optional with this committee. I do not want to suggest how to proceed, but it seems to me that while you are discussing this subject, that this matter should be properly considered by your committee.

If it is the wish of your committee to consider it separately I shall be very glad to present the argument to you at some separate meeting, or to a subcommittee.

I would also say to the gentleman that there are a good many experts and people who have studied this subject in the United States that are greatly interested, and wanted to be heard before this committee. Your time was so short in having these hearings that I did not attempt to get in communication with those people, who would be very glad to go into it at length, and who have asked to be heard on this subject. If you desire, I shall be very glad to arrange with the committee to do that.

The CHAIRMAN. We will proceed now with reference to the tax matter.

Mr. McFADDEN. Now, regarding these tax-exempt securities outstanding, about half of which is represented by the debts of States, cities, school districts, and other political subdivisions, about half represent the obligations of the Government. In the last few years we have seen the personal wealth of the country so rapidly segregated into the tax-free class that whereas the taxable income of individual taxpayers under the Federal income tax law was \$992,972,985 in 1916, the amount decreased to \$731,372,053 in 1917 and to \$392,247,329 in 1918. It is not to be supposed that the actual income of these taxpayers had thus decreased. On the contrary, it is a safe conclusion that they have converted their wealth into tax-free securities so rapidly that at a similar rate of conversion they would be "scot-free" of all income tax by 1922.

It is stated more than \$1,000,000,000 of State and municipal tax-free securities were issued in 1920. If these securities are held by the wealthy, those whose Federal income tax is at the rate of 75 per cent, the total annual loss in this one form of tax alone is over \$35,000,000, if the interest rate on these bonds averages 5 per cent.

Mr. GARNER. May I ask you one question there? You say that more than one-half of these securities, which you say is \$14,500,000,000 were Government securities that have been issued by former Congresses. Congress did not need any constitutional amendment in order to afford relief in issuing these securities, but they issued them as tax free. How would you expect even with a constitutional amendment—would you expect Congress to reverse itself to the extent of saying that they made a mistake in issuing these \$7,500,000,000 worth of tax-free securities?

Mr. McFADDEN. I do not propose that it be retroactive at all. It is not going to affect those securities.

Mr. GARNER. Well, I will say to the gentlemen that we have passed a lot of tax-exempt securities. A bill came out of your committee the other day exempting a lot of additional securities.

Mr. McFADDEN. I realize that, but still I consider it a grave mistake, and that it is putting the burden of the paying of these expenses of the Government on the poorer class of people, because the rich people will buy these securities and are investing their money in tax-exempt securities. It is a well-known fact throughout the country that those wealthy classes who have been investing their money in real estate and mortgages, are selling their real estate at these high prices, and selling their mortgages and investing their money in tax-exempt securities.

You had evidence of that before this committee recently, if I remember correctly, a man in New York, Mr. Green, who is the son of Hetty Green, in New York, as I remember the statement was made before your committee, that he was selling his mortgages and investing all of his money in these tax-exempt securities. That is only one illustration. There are many other instances and I think that Congress should do something.

Mr. GARNER. What I would like to call your attention to is this: You are here asking us to include in this bill a provision for a constitutional amendment, and Congress is continually, every session, creating more tax-exempt securities. Does it look to you like it

would be consistent to ask the States to pass a constitutional amendment providing for the taxing of their securities, when we are continually making our own securities subject to no tax?

Mr. McFADDEN. I will say to the gentleman that my thought in this resolution is that the States shall have equal rights with the United States.

Mr. HOUGHTON. You think this, that the tax-exempt securities, or the tax-free securities, are to a very large extent being purchased by the very rich, going to them because they are tax-exempt securities, and the very poor and the men with small incomes are not buying these securities, and that it is very much to the advantage of the men with small incomes to keep their incomes out of the tax-free securities, and that it is very much to the advantage of the man with the large income to put his income into them? In other words, is not the tax, in part at least, making up this differential?

Mr. McFADDEN. It is, and that is one of the reasons why I am presenting this matter here to you now. I realize that you are very busy and that you have other matters perhaps before you to consider this morning, but at the same time this has a bearing on the income of the Government from a different point, and I think the Ways and Means Committee should give careful consideration to it at this time.

The CHAIRMAN. Mr. McFadden, the question as to a constitutional amendment and the quantity of tax-free securities outstanding is out of place in our argument here. We should not be discussing a constitutional amendment. Let us proceed on this matter before us and save as much time as possible and discuss the question at issue.

Mr. McFADDEN. Granted that there may have been an apparent saving to borrowers of one-half of 1 per cent per annum, this saving on \$1,000,000 in 5 per cent bonds is only \$250,000 a year, or seventenths of 1 per cent of the annual loss in taxes. If the rates of taxation are not reduced the loss in Federal income tax alone would, for the life of this billion dollars in bonds represent a loss of \$700,000,000 against the total saving in interest of \$5,000,000. On a most conservative basis the Government is now losing annually from one hundred and seventy-five to two hundred million dollars on tax-exempt bonds already issued.

The wealthy investor receives as much net return from his 5 per cent tax-exempt bonds as from a taxable industrial investment paying over 17 per cent. Railways, public utilities, and other industries can not compete on this basis and are now being deprived of the capital which they need for expansion. This is a serious handicap to the normal progress of industry which should be terminated.

The tax-exempt bond has contributed to the depression in the value of Liberty bonds, causing the holders to sustain still further losses upon liquidation.

The issuance of tax-exempt securities by the Government, State, or other political subdivision, because of the ease in obtaining funds, encourages public debts, public extravagance, and public inefficiency in the expenditure of the funds so raised. Allowed to continue the issuance of tax-exempt bonds encourages all political units issuing the same to rapidly approach their bonding limits, when the burden of taxation thus created may become so heavy as to force confiscation of the property. As the bonding power of the cities becomes exhausted the credit position becomes impaired.

I hold that the credit position of the State is impaired, and that the credit position of a State can not become impaired without also impairing the credit position of the Government. The resolution which I have introduced to amend the Constitution places all forms of investment on an equitable basis as competition and reestablishes equality in the assumption of the tax burdens by all people. The principles of the Constitution are now being undermined and must be restored. Under this amendment, the Government, the States and all political subdivisions thereof will have equal rights to taxation upon all securities issued after its enactment and ratification by the State.

Now, this proposition has been indorsed by the Secretary of the Treasury, Mr. Mellon. In a letter to your committee he recommends to the consideration of your committee the removal of these tax exempt rights. It has been also previously recommended by two secretaries of the Treasury, Messrs. Glass and Houston, and I have here a couple of letters from R. C. Leffingwell, who was the Assistant Secretary of the Treasury, and who frequently appeared before your committee and I believe whose judgment was relied upon to some extent, and I would like to just quote from his letters briefly, if I may.

I have a letter from him under date of June 8, 1921, in which he says:

I received your letter of May 28. I am so impressed by the evils of tax exemption that I should be inclined not to reserve to the Federal Government the right to exempt its securities from State and local taxes even in the event of war or any other great crisis. I do not think tax exemption is ever adequately reflected in the selling price, because tax exemption has such varying value for different purchasers. I think the United States Government, even in wartime, should finance itself by paying the proper rate of interest frankly and fairly to all alike and not by undermining the revenues of States and municipalities any more than its own. I do not wonder that there should be some hesitation about this, but on the whole I believe the thing to do is to face the issue squarely and give the States full power to impose income taxes upon income from Federal securities, at the same rates, and upon the same terms and conditions, as they impose upon their own.

In another communication I have here, I would like to quote you a part:

I think that the opposition of less enlightened States and municipal authorities to the proposed constitutional amendment may be readily met by calling the attention of the body of the voters, by whose suffrage they hold office, to the fact that tax exemption is a special privilege conferred upon accumulated wealth and unearned incomes derived from it, and that the consequence of it is to enlarge the burdens which must be borne by the general public and by earned incomes. I do not think that any board of city fathers or any State legislature would be able to resist this argument. It is unquestionably true that the present excessively high rates of taxation upon the incomes of salaried men, professional men, and all workers, and present high rates of taxation on real estate, which reflect themselves in high rents, and upon incomes derived from taxable securities, are in large measure due to the fact that incomes and property invested in State and municipal securities, and in some of the securities of the Federal Government and Federal agencies, are wholly exempted from taxation.

The view that earned incomes should be taxed at a less rate than unearned incomes has been presented with much force. Indeed, there is little dissent from this view except on the ground of the administrative difficulty, which is considerable. It seems little short of amazing then that the Federal, State, and municipal governments should continue to apply the opposite principle, and by issuing exempt or partly exempt securities impose a heavier burden of taxation upon earned incomes than upon unearned incomes. The man who, for the first time in his life, is earning, say, \$10,000 a year by hard work, must pay his income taxes, his rent, support his family, and lay something by for the future; but the man who is living in idleness and enjoying an income of an equal amount from the investment of, say, \$200,000 in high-

grade public securities, is pretty well relieved from the necessity of providing for the future and relieved also from the necessity of bearing his part in the burdens of government.

I am the last one to advocate repressive measures toward capital. I can not, however, for the life of me, see why the accumulated wealth of the country should be exempted from bearing its share of the burdens of government, and allowed to shift it to the workingman of the country, whether they be farmers or business men or bankers or lawyers, whose energy and initiative must be applied to capital in order to make it fructify. If the manufacture of exempt Federal, State, and municipal securities continues, America will cease to be the land of opportunity. No one who did not accumulate a fortune before or during the war will have a fair chance to do so until the war debts and the debts that are now being incurred for semisocialistic purposes, Federal, State, and municipal, have been paid off. Fortunes accumulated before and during the war are drifting into exempt investments, and you and I and the other relatively young men of the country, whether well-to-do or poor, who have our accumulations to make, must do the work and pay the taxes to pay the debts incurred to those who by inheritance, or good fortune, or mere seniority, made their accumulations first.

This country is rich and has been the land of opportunity. Social discontent has never been serious here, because it was always easier for the man of energy and ability to advance his fortunes within the law and our institutions than by fighting them. To-day, rapidly, beneath our eyes, this situation is being altered. Tax exemption, which was a trivial matter before the war because taxes and public debts were relatively small, has become a grave social menace. The workers are being asked to pay the expenses of the Government and to pay tribute to the owners of accumulated wealth, who are themselves relieved from any part of the burden if they make certain specified investments of their wealth.

In a letter dated May 26, 1921, Mr. Leffingwell says:

Under the Supreme Court's decisions neither Federal, State, nor municipal bonds carry exemption from inheritance taxes.

The Federal Government can not impose a property tax without apportionment according to population, which means that it can not impose it at all as a practical matter. State and municipal property taxes are notoriously unequal, and I think that to subject public bonds to these taxes would impair their salability without addition materially to revenues. Those States which do not tax the income from their own bonds ought not, I think, to tax the income from Federal bonds, thus discriminating against them.

There is one other particular thing that I want to call to the attention of the committee.

Mr. FREAR. May I suggest this, Mr. McFadden, in connection with the argument that you are presenting and the statements made by Mr. Leffingwell, that no one has urged upon the committee the issuance of tax-exempt securities.

Mr. MCFADDEN. I am very glad to hear that.

Mr. CRISP. May I ask a question? You may have answered it before I came in. I was unavoidably detained for a few minutes. Do you believe that Congress has the power to say that bonds issued by State, counties, and municipalities shall not be issued tax free?

Mr. MCFADDEN. I do not; no, sir. My judgment—I am not a lawyer—but in my judgment, after consulting several lawyers on the subject who are constitutional lawyers, I believe it is necessary to have a constitutional amendment to do this.

Mr. CAREW. I knew that you had given the matter thought and I know that there is a dispute among lawyers as to whether Congress has this power or not.

Mr. MCFADDEN. In any case—

Mr. GARNER (interposing). How long do you think that it will take 48, 36, or 37 States to adopt the constitutional amendment submitting their securities to taxation by the Federal Government, when the Federal Government still makes its own securities tax free?

Mr. McFADDEN. I think that it will take some little time to get it ratified.

Mr. GARNER. But we must pass a bill here which will raise revenue for this year, and not five or ten years from now.

Mr. McFADDEN. The fact that it will take time is no reason why we should not begin and is no reason why Congress should not immediately take action regarding it. It is an important question.

The CHAIRMAN. Please be brief, as we have several men here who want to catch a noon train, and we would like to hear them this morning.

Mr. McFADDEN. I will.

Mr. YOUNG. This is one that you think is worth while talking about?

Mr. McFADDEN. I think so; that is why I came here with it this morning.

Mr. HAWLEY. Mr. McFadden, securities issued by one State, which provides that they shall be free from taxation, or exempt from taxation in that State, does not make them free from taxation in the other 47 States?

Mr. McFADDEN. No, they are not. As it stands now, States have an equal right to tax other State securities. That may be done if the States wish.

Mr. HAWLEY. If found within their borders?

Mr. McFADDEN. If found within their borders; but here is a point I wish to stress, and which has a bearing on this whole situation and that is that during the war period we have on the part of the Government and in aid of foreign governments absorbed our investment money to a very great extent, and they have taken it from the taxpayers, the usual investors, through the taxes which this committee has levied.

Now, the continuance of tax-exempt securities gives a preferred claim on this investment money, of that available and it works a hardship on all other classes of investors; and that is something that it seems to me that is particularly pertinent that should come before your committee and that your committee should give attention to. There is a wild scramble. There is a shortage of working capital, a shortage of capital for this reconstruction period, which we need. I do not think there is anything that we need worse at this time than sufficient capital to carry on this reconstruction work.

We have loaned the Allies some twelve billion. We have paid up five billion we owed them; and so we have taken an enormous amount of money from our people to pay the running expenses of the Government, and the continuance of additional issues of tax-exempt securities is a tremendous problem, and I think should be given attention by this committee. I do not know that I want to take up any more of your time this morning.

I would like to file with the committee some additional papers.

The CHAIRMAN. Leave whatever you desire to go into the record with the reporter and we will have it printed.

KUHN, LOEB & Co.,
New York, January 13, 1921.

DEAR CONGRESSMAN McFADDEN: Referring to your very interesting article in the New York Times of January 9 you may possibly be interested in perusing the accompanying statement which I made up a little while ago. Inasmuch as I wished to ascer-

tain the aggregate of tax-exempt securities available, I included in it the full amount of the Victory bond issue. As far as I am informed, approximately \$1,000,000,000 of that issue have been converted into tax free 3½ per cent bonds, so that the aggregate of tax-exempt securities outstanding at this time should be approximately \$11,500,000,000.

Permit me to offer you my congratulations on having taken the lead in furthering a measure to deal with the evil of tax-exempt securities.

OTTO H. KAHN.

RESOLUTION OF INVESTMENT BANKERS' ASSOCIATION.

Whereas the necessities of war financing and the consequent high taxation have caused to be questioned the policy of exempting from Federal taxation income derived from obligations of the States and their political subdivisions and have caused some advocacy of Federal legislation to tax the income from such obligations; and

Whereas in the opinion of the board of governors of the Investment Bankers' Association of America, which is supported by the opinion of eminent counsel, the Federal Government has no power under the United States Constitution to impose a tax on such obligations or the income derived therefrom without a further constitutional amendment; and

Whereas, even if it should be decided by the United States Supreme Court that the power to tax such obligations is vested in Congress under the constitution as now framed, the imposition of a tax on the income from such obligations now outstanding would be considered a breach of faith by the investing public who in reliance upon the existing exemption from such taxation have paid for such exemption in the purchase price of such obligations; and

Whereas, in the opinion of the board, tax exemptions lead toward unsound public policy and the exemption from taxation by the United States of future obligations of States and their political subdivisions should be abolished and the exemption from taxation by the States of future obligations of the United States should likewise be abolished; and

Whereas, in the opinion of the board, it would be dangerous to both the Federal and State Governments to empower either to tax obligations of the other without limiting such power by proper safeguards:

Resolved, That it is the sense of this board that the Investment Bankers' Association of America advocate the adoption of an amendment to the Constitution of the United States empowering on the one hand the Federal taxation of the income from future obligations of the States and their political subdivisions and on the other hand the taxation of future obligations of the United States by the States and their political subdivisions, in both cases with proper safeguards limiting such taxation.

SAVINGS BANKS ASSOCIATION OF THE STATE OF NEW YORK,

New York City, June 25, 1921.

DEAR SIR: I take pleasure in directing your attention to the following resolution, which was adopted unanimously by the 300 delegates assembled at the Twenty-eighth Annual Convention of the Savings Banks Association of the State of New York, held May 11, 12, and 13, 1921:

"Resolved, That it is the sense of this convention that the Savings Banks Association of the State of New York advocate the adoption of an amendment to the Constitution of the United States empowering, on the one hand, the Federal taxation of the income from future obligations of the States and their political subdivisions and, on the other hand, the taxation of future obligations of the United States by States and their political subdivisions, in both cases with proper safeguards limiting such taxation; and be it further

"Resolved, That copies of this resolution be transmitted to the President of the United States, the Secretary of the Treasury, the members of the Federal Reserve Board, and the Members of the Senate and House of Representatives."

In view of the recent discussion of the whole question of taxation, it was believed by our association that you would be interested in knowing its position upon the subject set forth in the above-quoted resolution.

H. H. WHEATON, *Executive Manager.*

STATE LEGISLATORS FAVOR M'FADDEN AMENDMENT TO TAX MUNICIPAL BONDS.

Taxation of all incomes "from whatever source derived," even from Federal, State, and municipal bonds as provided in the McFadden resolution, is favored in the remarkably lucid report of the New York special joint legislative committee on taxation and retrenchment, Senator Frederick M. Davenport, chairman.

From the discussion of the cause and effect of and the remedy for exemption of the income from these or any other securities and the resulting class of privileged but wealthy investors, we quote:

"In the exemption of income from State and municipal bonds, * * * the financial saving to the State, to cities and towns through the marketability of bonds at low rates of interest because of their exemption is unquestionably more than offset by the loss of revenue due to the exemption. We are, therefore, of the opinion that steps should be taken as soon as is practicable to abolish all income-tax exemptions for future issues and to secure an agreement with the Federal Government with regard to future Federal bonds.

"The time has now come for a determined stand on the part of State governments against the further extension and for the positive restriction of tax exemptions. The extension of governmental activities during recent years and the proposed expansion still under way has created an entirely new situation with regard to governmental bonds.

"The Federal Government has undertaken vast public improvements and financial enterprises, such as the Panama Canal, the Alaskan railroad, and the farm loan banks. State governments have built canals, bridges, and highways, and undertaken large hospital, institutional, and educational projects originally financed largely by borrowings. Cities are digging subways, buying busses, erecting electric light and power plants, and embarking on extensive improvement projects, all of which are financed primarily by the sale of tax-exempt securities.

"Government is slowly invading a field which has heretofore been left to private enterprise and is financing the capital outlays which make this possible by the issuance of tax-exempt securities.

"This fact creates an entirely new situation, and your committee has come to the conclusion that the only sound policy to be pursued from now on is to require the marketing of all public securities without the exemption features. * * *

"Whenever a change is made in a fiscal system, it is liable to cause undue hardship for those who happen to be in an unfavorable position at the time of the change or to create for those who happen to be in a favorable position an unearned and fortuitous increment of wealth. The imposition and repeal of tariffs has more than once produced such results. The assumption of the State debts by the Federal Government in 1790 furnishes another example. The enactment and repeal of tax measures can produce the same general consequences. * * *

"An individual now paying the lower income-tax rates, or a mortgage or trust company, would thus profit very considerably on all mortgages now held if they were made exempt from taxation. This fact caused the committee to proceed with some caution before following the suggestions of the representatives of those moneyed corporations which hold a large part of the mortgages now outstanding who took such a prominent part in the mortgage-exemption propaganda.

"As a result of these considerations and of the studies of the committee it was determined not to advocate the exemption of mortgages in any form, but rather to call the attention of the legislature and the public, first, to the danger of destroying the income tax by restricting its base and, second, to the need of reconsidering the entire question of tax exemption in the light of the new situation.

"It is our belief that the income from State, municipal, and Federal bonds should be taxed as other income and that practical steps to secure this result should be undertaken in the immediate future."

EXEMPTION MAKES CAPITAL TAX EATING RATHER THAN TAX PRODUCING.

From the report of the special committee appointed by Hon. B. W. Olcott, governor of Oregon, to ascertain sources of revenue, to relieve direct property tax burdens, we quote the following observations to the effect of tax exemptions:

"Exemption from taxation should be extended only with extreme caution. In particular we regard the issuance of nontaxable bonds as a policy which promotes deleterious effects great enough to overbalance the better market status given such securities by the exemption. It creates a considerable body of citizens not interested in tax expenditure and tax conservation and is therefore a mistake. No citizen should have or exercise a greater interest in tax affairs than he who holds the securities of the

Commonwealth that is levying the taxes. Yet once secure in possession of the bonds it is human nature for him to look with indifference upon the toil and sweat of those who must pay.

"But of greater import is the tendency of such securities to withdraw from industry both the capital and the service of those who are successful in directing and controlling industry. This tendency is stronger when taxes levied on industry are high and subject to constant increase at the whim of a short-sighted community. Capital which should be tax producing becomes tax eating; the gain is but transitory and the end is bound to be disastrous.

"So far as practicable double taxation, now or generally practiced, should be avoided; although unconstitutional it violates the rule of equality."

AMERICAN FARM BUREAU FEDERATION,
Chicago, Ill., June 23, 1921.

DEAR MR. MCFADDEN: Thank you for sending me a copy of House joint resolution 102.

A great many of our farmer constituents will probably be of the opinion that this amendment should not be enacted because it would interfere with the selling of Federal land bank bonds. However, I feel certain that the farmer's interest lies in the passage of this resolution, or a similar one, and I believe when the farmer has proper information regarding the matter he will give it his undivided support.

We do claim that so long as other securities are tax exempt, Federal land bank bonds should also be, but we do not believe the farmer should be given any special privileges or exemptions in this or any other act of legislation.

J. R. HOWARD, *President*.

STATEMENT BY PRESIDENT J. R. HOWARD OF THE AMERICAN FARM BUREAU FEDERATION ON TAX-EXEMPT BONDS.

There has been an apprehension on the part of a number of farmers regarding the effect which a law or constitutional amendment making all bonds tax exempt would have upon the bonds issued under the Federal loan bank act.

The lowest estimate which has been made by competent authorities regarding the outstanding tax-exempt bonds, Federal, State, municipal, and others, place the amount at from \$16,000,000,000 to \$20,000,000,000. Other authorities have estimated these bonds as high as \$40,000,000,000 to \$50,000,000,000. A reasonable estimate would indicate that at the present time they would total \$20,000,000,000 to \$25,000,000,000. There is no way of determining exact amounts. The total farm valuations at the last (1910) census on land and buildings was \$34,801,125,697. Thus, if an acre of land was covered by tax-exempt Federal land bank mortgages for two-thirds its full value, it would only equal the present outstanding tax-exempt bonds. Every farmer knows it would be impossible to get a loan for two-thirds the value of his land.

But tax-exempt bonds are rapidly increasing and unless soon checked will more than equal the values of all farm properties in the United States, including lands, buildings, live stock, and machinery. These tax-exempt bonds are property. Being tax exempt, they throw additional taxation burdens upon other classes of property. When the amount of tax-exempt bonds equals the value of the farm lands of the Nation, it means that every acre of farm land will be carrying approximately a double taxation.

The farmer is certainly as much entitled to tax-exempt securities as anyone else, but if all tax exemptions could be done away and the farmers' bonds placed on equal basis with other bonds he would be a gainer thereby and not a loser.

RESOLUTIONS OF THE TENTH ANNUAL NEW YORK STATE TAX CONFERENCE, MARCH 2 AND 3, 1921, ON TAX EXEMPTION OF SECURITIES.

Whereas the operation of any tax on income, especially on personal income, can only be equitable in proportion as it is distributed according to relative ability of the taxpayer;

Whereas a combination of high tax rates and tax exempt securities results (as stated in the report of Dec. 17, 1920, by a special committee on taxation to the United States Chamber of Commerce) "in the taxpayer shifting much capital from investments in industrial and commercial activities to these tax-free securities" to the extent that "there is an evil of great public consequence";

Whereas the United States Secretary of the Treasury has reported that the taxable incomes of over \$300,000 a year amounted in 1916 to \$992,000,000, in 1917 to \$731,000,000, in 1918 to \$392,000,000, and says: "There is little reason to believe that the actual income of the richer taxpayers of the country had fallen in that interval. It is the taxable income which has been reduced and almost certainly through investment by the richer taxpayers in tax-exempt properties";

Whereas the present direct and indirect exemptions are breeding other exemptions to the extent that individuals are thereby subsidized at the general cost, as in the case of agricultural and shipping interests under Federal law, and the need for subsidy in order to compete in the money markets will lead in the direction of public ownership, single tax, and socialism; and

Whereas the evident and proper intent of the Federal constitutional provision is to make subject to taxation the incomes "from whatever source derived" and this can not be accomplished so long as Federal, State, municipal, and "instrumentality" securities are privileged through tax exemption: Be it

Resolved by the Tenth Annual Tax Conference in the State of New York, That we reaffirm our opposition to the granting of any personal privilege under the guise of tax exemption from any income tax, Federal or State, as set forth in more detail in the report and resolutions of the last annual tax conference.

Resolved, That we state most emphatically (in the words of the above-mentioned report of the United States Chamber of Commerce) that "there should be no exemption of any future issues the income from which may lawfully be made subject to tax."

Resolved, That we indorse the movement to obtain amendment of the United States Constitution in order to empower Congress to tax incomes "from whatever source derived," such amendment probably being necessary in view of the amount of judicial dicta to that effect.

Resolved, That while we favor the simplification of systems of taxation and advocate a low rate tax on a wide base rather than a high rate tax upon a narrow base, we are convinced by the discussions of public officials that taxpayers will be justified in making a united demand that their elected representatives shall reduce the amount of public budgets to a point where the burden can be borne without distress to taxpayers;

Resolved, That every department and bureau of Government should be at once reduced to its prewar status, unless enlarged activities are shown to be justified by results of a tangible nature;

Resolved, That new activities of every kind and nature shall be discouraged and generally denied to the end that our State and National Governments shall exercise the same degree of thrift and frugality that is now imposed upon taxpayers.

Resolved, That we condemn without reservation all proposals of whatever degree of merit so far as the subject matter is concerned which result in the increase of public appropriations through the so-called "Federal aid" method. Our objections to "Federal aid" appropriations are based (1) upon the principles of public finance which require effective control by legislative agents from year to year, (2) upon the weakness in our political system which permits both "logrolling" between legislators and propaganda by the managers of the "aided" projects, and (3) upon the evident belief of the sponsors of practically every movement for "Federal aid" that economic and social advancement must be nationalized to the extent of a federalism which will supersede local or even State control of such vital community problems as education, highway construction, physical training, health, and sanitation.

Resolved, That in the judgment of this conference the State constitution should be so amended as to provide for the assessment by the State tax commission of the property of public service and public utility corporations and prohibiting further exemptions from taxation except by general laws and by the affirmative vote of two-thirds of the members elected to the legislature.

Resolved further, That a committee of three be appointed by the chairman of this conference to formulate such resolution and present same to the chairman of the committees on taxation of the senate and assembly with the request that the same be introduced and adopted at this session. Committee: Hon. John J. Merrill, Hon. Walter H. Knapp, Francis A. Willard.

REPORT OF COMMITTEE OF THE NATIONAL TAX ASSOCIATION, 1920.

It is axiomatic that taxation should be universal and that every person in the jurisdiction of a government should contribute to the support of that government in a proper proportion. The exemption of any individual or class, in part or in whole, is favoritism or privilege and as such is indefensible.

If the basis of taxation be property, all private property should be taxable; if the basis be income, all private income should be taxable. Exceptions to this rule should

be technical only and should never result in an actual lessening of anyone's fair tax burden.

The only ground for absolute exemption from taxation, either of property or of income (revenue), is absolute public use.

Technical exemptions, such as those designed to avoid double taxation, or to graduate the tax burden, or for fiscal administrative reasons may be granted, but must be safeguarded so as not to result in privilege or favoritism.

(a) *Public property*.—It is customary in the United States to exempt from all taxation all property belonging to any branch of government. The propriety of such exemption is obvious in most cases, although there are some peculiar instances in which that exemption brings difficulty. For a city, a State, or the Federal Government to tax its own properties would be merely to transfer money from one account to another.

For the Federal Government to tax State property or a State to tax the property belonging to a city, a county, or a town, or the converse of any of these; would be to assert a right on the part of one branch of government to take from another property which may be one of the essentials of its existence.

An exception to the second rule may sometimes be necessary. Thus great cities have acquired watersheds and other property in neighboring jurisdictions of such extent as to cripple the governments under whose protection the property lies. Again the Federal Government has acquired forest lands or set up forest reserves so extensive as to cripple the local governments preexistent in the territories acquired. While these and similar difficulties have been tentatively solved in some cases by the grant of continued taxability of the property, this solution is not sound and can be regarded as little more than a makeshift. Eventually there must be a readjustment of territorial jurisdiction and (or) of the functions of government to cover such cases.

The acquisition by municipalities of public utility properties formerly taxable by the State, the county, and the city itself, presents a similar problem for adjustment between related branches of government. But in general the principle of the exemption of public property is sound.

(b) *Government instrumentalities*.—The Federal Government has withdrawn from taxation greenbacks and national banknotes. The propriety of this exemption of the necessary instruments of trade is not questioned.

The same Government while granting to the States and cities the right to tax private stockholders on account of shares of stock in national banks has denied them the right to tax Federal reserve banks and farm loan banks, and private property interests therein.

We are of the opinion that these exemptions are too sweeping and that any private property rights in these institutions should be taxable as property, under safeguards analogous to those now thrown about the taxability of national bank stock. It is not necessary to forbid all taxation, but to forbid only discriminatory taxation.

Government bonds are now generally exempt from the property tax. If a State (or city) government taxes its own bonds it would presumably have to pay back the tax in the shape of higher interest and the exemption may be regarded as a technical one, of fiscal method only. We are not disposed to discuss the theory of this case.

The matter is only slightly different when the State denies to its constituent local governments the right to tax its bonds or empowers the cities and other local governments to issue bonds exempt from State as well as local property taxes.

The exemption of public bonds from taxation under the property tax has, however, seldom created any embarrassment and has quite generally been regarded as giving the governments a chance to borrow at a very low rate of interest and by reason of the fact that the rate of interest is so low (virtually equal to the commercial rate less the average tax) has not created any favored or privileged class. The exemption of the interest on bonds under the income tax is a very different matter, which we shall discuss later.

(c) *Property devoted to quasi public uses*.—It is customary to exempt from the property tax church property and that of schools, colleges, academies, eleemosynary and other institutions or organizations, assumed to be doing a public service. With these goes the exemption of cemeteries, for reasons of piety or respect for the dead.

These exemptions have met with general public approval, and, supported as they are by the votes of the churchgoers and other beneficiaries and by those who frame public opinion, are strongly entrenched. It seems to be idle to criticize these exemptions, although it should be obvious that whatever reason may exist for holding this class of property as private property is an equally good reason for paying taxes thereon. Abuse of the church exemption privilege has arisen, where churches, holding property in or near the center of rapidly growing cities, have waxed enormously wealthy not only from the increment in the value of their land but even more from the accumulated funds of unpaid taxes.

The line between an institution or organization serving a public purpose and one of a private character is often hard to draw and sometimes the voters have been persuaded, by rather specious arguments, that this or that organization is in the "public" class when possibly a more accurate judgment would place it in the private class. Thus we have grave doubts as to the classification of secret societies as eleemosynary organizations, and doubt the wisdom of their exemption.

Embarrassment has arisen from these exemptions when the mass of exempt property lying in any one tax district is so large as to cripple the government of that district or to unduly raise the taxes on contiguous property. This difficulty can be met by redistricting or by special arrangements in specific cases.

(d) *Exemptions as bounties.*—There are cases where exemptions are granted specifically as bounties. These are of two kinds. The first is exemplified by the veterans' exemptions, the second by the exemptions designed to attract industries and population to the exempting locality.

We are of the opinion that both of these are unsound. If a grateful people wish to reward or support war veterans and other public servants there is the more direct and dignified method of pensions available. The exemption benefits only those veterans who have property and not all veterans. Tax exemption is a poor form of bounty and can never be regarded as a dignified way of meeting a felt public obligation.

The other form of bounty by tax exemption, namely, the exemption of industrial plants, leads so often to intermunicipal wars and strife, and would so soon break down the tax system that its folly has come to be generally recognized, and, if we are correctly informed, the evil is gradually abating.

(e) *Technical exemptions.*—In some cases mortgages on property which is otherwise fully taxed are exempt. So too are the stocks and bonds of corporations whose property is fully taxed. These and similar exemptions are technical only and create no favored or privileged classes.

(f) *Exemptions working a graduation of rates.*—There are a group of exemptions covering workmen's tools, farm machinery, household furniture, and other items, granted in part because of the difficulty and cost of collecting small amounts from many poor people, but which also have the effect of mitigating the tax burden to the poor. When carefully restricted these exemptions are sound. But the door can easily be opened too wide and the arguments used propaganda-wise for extending these exemptions are specious.

(g) *Administrative exemptions.*—The practical difficulties of assessment have led to some exemptions, as of money in pocket, watches, and other small items, but these are of little importance.

It is quite general to exempt the crops of the year, or to fix tax-day in a season (the spring of the year) when there will be no crops in hand. This is a proper distinction under a property tax, when the land is fully taxed. The taxation of the crop and of the land would result in adding a quasi income tax to a property tax.

For obvious reasons we need not comment on exemptions granted under some one tax imposed "in lieu of" other taxes.

Absolute exemptions from the Federal income tax—that is, all save those so-called personal and family exemptions which are more properly called credits and the credit for dividends taxable at the source, are of three kinds. The first are exemptions by reason of the source of income. The second are exemptions by reason of the use of the income. The third are assumed to be for the protection of a public instrumentality. The first are, specifically, incomes paid out of State and local funds, the salaries of State and local officials and the interest on State and local bonds. With this may be grouped the interest on certain Federal bonds. The second are, specifically, incomes received by—

1. Labor, agricultural, or horticultural organizations.
2. Mutual savings banks not having a capital stock represented by shares.
3. Fraternal beneficiary societies, orders, or associations, (a) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and (b) providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association, or their dependents.
4. Domestic building and loan associations and cooperative banks without capital stock, organized and operated for mutual purposes and without profit.
5. Cemetery companies owned and operated exclusively for the benefit of their members;
6. Corporations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual;

7. Business leagues, chambers of commerce, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private stockholder or individual;

8. Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare;

9. Clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net earnings of which inures to the benefit of any private stockholder or member;

10. Farmers' or other mutual hail, cyclone, or fire insurance companies, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations of a purely local character, the income of which consists solely of assessments, dues, and fees, collected from members for the sole purpose of meeting expenses;

11. Farmers', fruit growers', or like associations, organized and operated as sales agents for the purpose of marketing the products of members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them;

12. Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from income tax;

13. Federal land banks and national farm-loan associations as provided in section 26 of the act approved July 17, 1916, entitled "An act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositories and financial agents for the United States, and for other purposes."

It will be noted that some in the second group are analogous to some of the long-standing exemptions under the property tax and may be said to rest on an assumed public use. The remainder of the second group are incomes so-called, of mutual societies of one sort or another. Doubtless many of the exempt societies have no net income in any proper sense of the word income, and the exemption is in each such case strictly technical or formal. Like the so-called exemptions of inheritances and of payments to beneficiaries under life insurance policies, these are not exemptions but part of the definition of income. But it is interesting to note that after many years of experience with income taxation the British are coming to question the propriety of exempting their great cooperative societies and that it is by no means clear that a mutual society which saves its members expense is necessarily without net profits. But the committee does not desire at this time to scrutinize the list in detail.

The exemptions of the first kind have been severely criticized, and your committee believes that they are fundamentally unsound.

They rest in the main on a misconception of the income tax and on the fallacious assumption that the tax is on the money one receives, whereas it is, or should be, a tax on persons in proportion to their means or incomes.

It seems to be assumed in these exemptions that money becomes, as it were, inviolable by contact with a public treasury and remains inviolable after it leaves that treasury and passes into private use. A public salary, or interest on public bonds loses, so we believe, its original public character the moment it passes into private hands and becomes spendable for private purposes. Since all personal or private income should be taxed, so the recipients of public salaries and of interest on public bonds should be taxable as any other person is.

The history of these exemptions, which can be traced back to Justice Marshall's dictum that Congress can not use its power of taxation "to embarrass or destroy" that which it might not otherwise embarrass or destroy, is too familiar to call for review here. But the recent confirmation of these exemptions by the Supreme Court a constitutionally unavoidable leads to the conclusion that there is no way to remedy the evil save by a Federal constitutional amendment. We add here a statement of the recent decision.

On the 1st day of June, 1920, the United States Supreme Court handed down an opinion in the case of *Evans v. Gore* denying that Congress has the power, under the Constitution, to impose an income tax on the salary of a Federal judge. The specific point involved turned upon the language of the Constitution in that passage which says that the compensation of judges "shall not be diminished during their continuance in office." But the decision is based upon reasoning involving a complete and sweeping acceptance of all the exemptions existing and sustained by the courts prior to the adoption of the sixteenth amendment, and in language unequivocal reaffirms all of the old decisions. In the opinion of the court the salaries of State and local officials and the interest on State and municipal bonds are exempt from the Federal income tax. The language is not so strong as to the exemption of the interest on State

and municipal bonds as it is as to salaries. Although that part of the opinion which deals with matters other than the specific question of the taxability of judges' salaries is an obiter dictum, it so emphatically confirms the previous rulings that we must accept it as a final interpretation of the law.

In passing it may be noted that Mr. Justice Holmes (Justice Brandeis concurring) wrote a dissenting opinion holding that to impose on a judge an income tax "that all other men have to pay can not possibly be made an instrument to attack his independence as a judge," and further arguing that the sixteenth amendment did abolish the old exceptions to the powers of Congress with reference to the income tax. It appears, then, that the present President of the United States and the present Federal judges during their term of office, all present and future State and local officials, including school teachers, and the recipients of interest from State and local bonds constitute in the language of Mr. Justice Holmes (see decision under review) "a privileged class, free from bearing their share of the cost of the institutions upon which their well-being, if not their life, depends."

In view of the decision in *Evans v. Gore*, it appears that it will require another constitutional amendment to make it clear that what is abhorrent is discriminatory taxation and that a general, uniform tax on all persons, including officials, can not in the nature of things tend "to embarrass or destroy" the independence of judges, or the proper exercise of their functions by other officials.

Your committee accepts the opinion as a final statement of the existing law, but recommends that careful consideration be given to the question above raised, namely, whether the Constitution should be amended so as to abolish all privileged classes.

In view of the foregoing it may be felt that the views of this committee are academic and vain, and our protest against the existing exemptions mere idle words. It is, moreover, doubtful whether even a constitutional amendment could be retroactive, and in view of the large interests affected it is clear that it should not be retroactive. It would be a severe blow to State and municipal credit to bring the interest on all outstanding bonds suddenly under the income tax. The constitutional amendment must apply only to interest on bonds issued after its adoption. Probably the same principle should be applied to public salaries, and a period of transition of say two years be provided.

In this connection it must be pointed out that the evils of the exemption of bond interest are intensified under a progressive income tax. If the income-tax rate were flat—a uniform percentage for everybody—the evil would be there, but slighter than it is now. But the exemption means much more to some persons than it does to others, on account of the progressive tax rates. It tends to defeat the whole purpose of progression.

The third class of exemptions are those of public instrumentalities. The specific instances that we have in mind as exemptions granted under an assumption that they are for the protection of a public instrumentality are the exemption of the interest on farm loan bonds, of interest on bonds issued by the War Finance Corporation, and dividends of the Federal reserve banks. The viciousness of the exemption of these items from the property tax has already been considered. There is not the least ground for the exemption of interest from these sources when it passes into and becomes a part of the private income of an individual or of a taxable corporation. The assumption that to protect its own instrumentalities the Government must necessarily create a privileged class of tax-exempt persons seems to us very far-fetched. Surely the evil so created is greater than any evils which might result from nonexemption.

These exemptions do not come under the protection of the courts, not being covered by *Evans v. Gore*, and Congress has power to remove them by appropriate legislation.

Your committee does not propose in this or in other instances that bonds issued and outstanding with the exemption privilege be made taxable, but only that no more such tax-free bonds be issued.

There are so many different varieties of State income taxes, no two of those now in use being at all alike, that any enlightening discussion of the existing exemptions thereunder would require a lengthy statement of the aims of each such State income tax and its place in the general system of State and local taxation. We have, for example, in Wisconsin an income tax which was originally thought of as a substitute for the tax on personal property; in Massachusetts a tax on incomes classified according to the assumed tax-paying ability and intended to adjust certain inequalities in local revenues peculiar to Massachusetts and due to tendency of rich people to congregate in certain towns. In other States we have income taxes designed primarily to reach nonresidents who draw income from within the State, and income taxes so-called that are practically business taxes on corporations. In one case we find a State income tax designed to deflate inflated fortunes. In only one State, namely, New York, is there a straight out and out revenue income tax.

Your committee believes that the rule "that all private income should be taxable" can be easily applied to a State income tax, and needs no lengthy explanation.

Obviously, the exemption of Federal salaries and of interest on Federal bonds, which is the counterpart in State income taxes of the exemption of State salaries and State bond interest under the Federal income tax, is wholly unjustifiable. But these privileged classes are hedged about by the same constitutional protection as protect State officials and the holders of State bonds from Federal taxation.

Exemptions tend to breed rapidly. When one is granted it is easy to find grounds by analogy for other exemptions. This is especially true of those based on assumed public benefit. As was suggested above, there is difficulty in applying the principle of public use as a ground for tax exemption. Hence many a movement, inaugurated for the assumed or alleged good of all, demands tax exemption as one of its rewards.

It is not at all in a spirit of levity that we cite the following story: In 1905 there appeared before the California tax commission a gentleman who had been for some years importing blooded cattle and demanded that all cattle bred from this selected stock should be exempt from taxation, while all scrub cattle should be fully taxed. He argued with full sincerity that he was doing a valuable public service in improving the breed of cattle and that his high-priced bulls and cows should therefore not be taxable at their "full cash value."

No sooner does a need arise for more dwellings than it is proposed to promote building by some form of tax exemption. Public service corporations find it hard to borrow money and argue that since their plants are in the public service, holders of their bonds should have the same exemptions as holders of municipal bonds enjoy. After granting veterans and their dependents exemption from taxation it is easy to dodge the necessity for a mothers' pension system by granting tax exemption to widowed mothers. If to facilitate assessment procedure one State grants an exemption of \$100 worth of household furniture, another State makes it \$500. If port A exempts shipping, port B follows suit, and then other industries cry out for exemption.

Many mice nibbling away will destroy a large cheese. There is danger that the whole structure of taxation in the United States will be eaten away unless the mice be checked.

Through the courtesy of the tax commissioners and other officials of the several States and the industry of Mr. Robins and other members, your committee has been placed in possession of a considerable body of facts concerning proposed exemptions now pending. The reports show:

(1) The continued activity of the single taxers; (2) a marked tendency to multiply and raise the exemptions of household furniture, tools, farm machinery and the like, also to raise and extend the limit of war veterans' and similar exemptions; (3) a considerable number of new technical exemptions, not involving favoritism or privilege, (4) many proposals involving the exemption of a class of privileged persons or property. Among these are a few which seem to have wide support, and strong sponsors. All those of the first three classes are fully covered by the discussion above. We shall therefore comment upon those of the fourth class only, and one case will serve to illustrate all of them.

First in importance among those of class four is the proposal to exempt interest on mortgages from the income tax (Federal and State). These proposals are embodied in bills before Congress and some of the State legislatures, and are backed by influential organizations of money lenders and money borrowers.

Your committee finds these proposals fundamentally unsound. The arguments by which they are supported are specious. In many cases the argument is that since the recipients of interest from municipal and other bonds are exempt, the same privilege should be extended to private loans. Another form of the argument is that the rate of interest demanded on taxable loans is prohibitively high and since more building is urgently needed the tax should come off. But we have already shown that the exemption of interest on public bonds is unsound, although constitutionally unavoidable, and it is no remedy for one evil to create another like it. Moreover it is more than doubtful whether the removal of the tax would lower the interest rate.

Under an income tax every person should be taxed in proportion to his income, regardless of source. Any other rule results in the establishment of a privileged class.

It is true that the exemptions granted holders of Liberty bonds, and of State and local bonds have enhanced the disturbances of the money market and have intensified difficulties unavoidably incident to the war. But your committee can see no remedy for this, but only a further disturbance, in the proposed tax exemption of mortgage interest.

Exactly the same principle applies to the desired exemption of interest on the bonds of public utility companies.

While many of the existing exemptions are hedged about by constitutional protection, and on account of the vested rights already acquired, can not be lightly dis-

turbed, the committee believes that this association may set the seal of its disapproval on any further extension of exemptions of a privilege-making kind. Our Government should not wade more deeply into these quicksands but strive to reach the shore.

The committee condemns specifically—

1. Under the property tax, any further extension of exemptions of the nature of bounties, whether these be of the war veterans' type, or of the type of those granted on household furniture, tools, farm machinery and the like, or of the type of exemptions granted to industries or commercial enterprises.

2. Under the income tax, Federal or State, the further exemption of any class of persons or kinds of income on account of the income's source or character. The committee restates the fundamental principle that an income tax should be a personal tax on every person in proportion to the income he enjoys from any source whatsoever.

Finally the committee urges careful consideration of the possibility of repeal of the existing exemptions which have created privileged classes or individuals.

W. N. Beatty, Salt Lake City, Utah; A. B. Clark, Manitoba Tax Commission; Frank B. Jess, State Board of Taxes and Assessment of New Jersey; B. S. Orcutt, New York; W. H. Osborne, jr., Secretary State Board of Equalization of Nebraska; Carl C. Plehn, University of California, chairman; A. P. Ramstedt, Wallace, Idaho; Frank Roberson, attorney general of Mississippi; Kingman N. Robins, Rochester, N. Y.; George G. Tunell, Chicago, Ill.

TREASURY DEPARTMENT,
Washington, May 16, 1921.

MY DEAR MR. CHAIRMAN: I received your letter of May 12, 1921, and have noted with much interest the inclosed copy of House joint resolution 102, your proposed constitutional amendment to provide against further issues of tax-exempt securities. One suggestion occurs to me. On page 2, lines 4 to 13, the effect of the language would be to open up Federal securities to State taxation after the ratification of the amendment, even though the securities were issued prior to ratification. The corresponding provision on page 1 would subject to Federal taxation only State and municipal securities "issued after the ratification of this article." I should say that in order to avoid discrimination in favor of State and municipal securities, and save any question of bad faith on the part of the Federal Government in respect to its securities already issued (all of which are in terms fully exempt from State and local taxation), it would be well to make a similar limitation to obligations of the Federal Government issued after ratification.

Of course, as to such bonds as Federal and joint stock land bank bonds, a constitutional amendment is not necessary. A statute would suffice to repeal the tax exemptions of future issues.

S. P. GILBERT, Jr.,
Assistant Secretary of the Treasury.

HARVARD UNIVERSITY,
COMMITTEE ON ECONOMIC RESEARCH,
Cambridge, Mass., May 16, 1921.

MY DEAR SIR: I received a copy of House joint resolution 102, and am greatly interested in it. I trust that some such resolution will receive favorable action by the present Congress, since it is greatly needed.

I wonder whether it might not be well, in lines 13 and 14 on page 1, to change the date from the date of ratification of this article to the date on which the resolution is reported out of the Committee on Ways and Means? Ratification will require at least two years, and there will be tremendous issues of tax exemptions during that period if ratification of this amendment is pending. If it is practicable to change the date in the manner that I have suggested, it seems to me that it would be very desirable that such a change should be made.

CHARLES J. BULLOCK.

HARVARD UNIVERSITY,
COMMITTEE ON ECONOMIC RESEARCH,
Cambridge, Mass., June 24, 1921.

MY DEAR MR. MCFADDEN: I have your letter of June 18, and in reply I may say that I think it is desirable to protect the Federal Government against unequal taxation of its securities by States, as Mr. Otto Kahn has suggested. The resolution, of which

you sent me a copy, is perhaps satisfactory; but I am not sure that the language of lines 11, 12, and 13 is the best possible. The word "equal" can be construed by the court to prevent discriminating taxation but I prefer a little different language. I think I should change the language on lines 11, 12, and 13 in such a way as to make them provide that States having in force such a general income tax as is described above may include within the scope of such a tax "gains, profits, and income derived by residents of such State." Then I would at the end say "provided, further, that such gains, profits, income, etc., shall be taxed without discrimination."

The word "equal," as I say, might be very well held by the courts to prevent discrimination, and I think it would be; but you never can tell what courts will decide when they have to apply the word "equal" to such a thing as a tax. If you say "without discrimination" you go right to the heart of the matter and give the court language which does not lend itself to metaphysical speculation as to what constitutes equality in taxation.

In regard to your further question about the desirability of incorporating a provision to provide for the case of war, I may say that I do not believe such a provision necessary and that I think it would be very harmful. Nondiscriminating taxation by the States will not interfere with the sale of Federal securities. On the other hand, such a provision as you suggest in the third paragraph of your letter would naturally be construed by Congress as an invitation to exempt Federal securities in case of another war, and it is just in times of war that the harm is done.

CHARLES J. BULLOCK.

EXCESS-PROFITS TAX.

H. C. McKENZIE, WALTON, N. Y.

The CHAIRMAN. Mr. McKenzie, kindly give your name and the business that you represent.

Mr. McKENZIE. My name is H. C. McKenzie; my post-office address is Walton, N. Y., and I speak in behalf of the American Farm Bureau Federation with a membership of between one and two million, and representing about 5,000,000 of the rural population of the United States.

Mr. YOUNG. Are you an officer in that association?

Mr. McKENZIE. I am a director. I am the tax representative also.

Mr. FREAR. Just suggest as you go along about what you did in connection with the National Tax Association Conference.

Mr. GARNER. Before you get to that, Mr. McKenzie, and before Mr. Frear carries you over all the other things, let us find out just exactly whom you represent.

Mr. FREAR. My suggestion was in connection with that.

Mr. McKENZIE. I represent the American Farm Bureau Federation.

Mr. GARNER. I understand you do, and I believe it is a very efficient, and a very important organization in this country, from what I have heard of it; but in order that the record may show just how that organization is formed, state just what you mean when you say you represent 2,000,000 people.

Mr. McKENZIE. Excuse me; I did not say 2,000,000 people. I said a membership of between one and two million, and representing roughly about 5,000,000 of the rural population.

Mr. GARNER. Yes; what constitutes membership in that organization?

Mr. McKENZIE. You have to join the country farm bureau and pay your membership fee.

Mr. GARNER. That is what I wanted to know. A great many gentlemen come here and say, "I represent a farm organization and

it is composed of several hundred thousand or one million people," and it is all in their imagination.

Mr. McKENZIE. No.—

Mr. GARNER (continuing). I understand your position, but I simply want to contrast your representation with the representation of some of those who profess to represent farm organizations here

Mr. McKENZIE. These are all paid-in memberships.

Mr. GARNER. I know they are.

Mr. McKENZIE. When a man ceases to pay his membership dues he ceases to be a member of the organization.

I have also been the tax representative of the American Farm Bureau Federation on the tax committee of the National Industrial Conference Board which started a year and a half ago to study this tax question.

The CHAIRMAN. Mr. McKenzie, let me interrupt you to say that we have a good many people to be heard, and our hearings will close on Friday of this week. I will ask you to be as brief as you can, so we can hear other gentlemen who, like yourself, have come here from long distances.

Mr. FREAR. Mr. Chairman, we have a bill before us that contemplates \$4,000,000,000 in taxation, and this is a gentleman who I know can give the committee some enlightenment, and I trust he may be permitted to discuss the matter fully.

The CHAIRMAN. We understand that, and I will ask you to discuss it as briefly as you can. If you have a brief which you wish to file at the conclusion of your remarks, we will be pleased to have it.

Mr. McKENZIE. I have no brief.

The CHAIRMAN. All right, Mr. McKenzie, proceed in your own way and be as brief as possible.

Mr. McKENZIE. I appeared before the Finance Committee of the Senate and went into the details of the sales tax, the income tax, the excess-profits tax, and I do not imagine it is necessary for me to do that here before you gentlemen this morning again, as you have that record. However, if there are any questions about my testimony before the Senate committee that you would like to ask, or any additional information, I will be very happy to answer your questions if I can do so.

Mr. FREAR. I have just one question before you pass from that. What is the attitude of your organization, if any has been expressed, on the subject of a sales tax?

Mr. McKENZIE. We have had a referendum on that matter, and three questions on the referendum, Nos. 6, 7, and 8, were in regard to this tax question. No. 6: "Do you favor asking Congress to submit to the States a constitutional amendment prohibiting the issuance of all tax-free securities?" The answer to that question was 78,256 were in favor of such a constitutional amendment, and 9,621 against it.

No. 7: "Are you in favor of continuing the excess-profits tax?" There were 83,475 in favor of continuing the excess-profits tax and only 6,121 against it.

No. 8: "Are you opposed to the enactment of a general sales tax?" The answers were 87,395 opposed to any general sales tax and 7,221 in favor of a sales tax.

They are the final results of the referendum. The farmers all over the United States were called into meetings, the questions were discussed and a vote was taken. In a few places, however, instead of calling a meeting, the questions were sent out to the members and the answers sent back to the county bureau office and tabulated at the State headquarters, and then sent to our Chicago office. So these are actual votes and show the actual result of that referendum.

Mr. YOUNG. Mr. Chairman, in the interest of confining these hearings to what we really want to have before us when we undertake to write the bill, as I understand it, there is no proposal now upon the part of anybody on the committee to have a sales tax or a turnover tax. If that is true, we might just as well cut out from this hearing all testimony of that sort by the witnesses.

Mr. FREAR. Mr. Chairman, let me say in reference to what the gentleman has read that two of those questions had no relation to the sales tax and he does not expect to discuss the sales tax unless the committee desires it.

Mr. YOUNG. I am not criticizing the witness at all but am simply suggesting this to save the time of the committee; that is, if it is true that we are not going to consider a sales tax.

Mr. HADLEY. Mr. Chairman, so far as I am concerned, this committee has not met and conferred upon any phase of this subject since the December hearings, and I feel that the matter should be presented in the way these men want to present it without regard to the views of any member of this committee on any plan.

The CHAIRMAN. The committee has not met and considered the matter at all. I have heard it discussed among members to the effect that there would be no sales tax considered in this revision at this time, but as the gentleman has said, there has been no action taken by the committee at all.

Mr. FREAR. Let me say, Mr. Chairman, that Mr. McKenzie before the Finance Committee of the Senate, has discussed the sales tax, in opposition to it, very thoroughly, so I do not think this committee will ask to have him retrace the ground.

The CHAIRMAN. No; we will read the hearings before the Finance Committee. Mr. McKenzie, Mr. Garner wishes to ask you a question.

Mr. GARNER. Before asking you the question, it may be proper to state for the record that these gentlemen are simply talking about the Republican membership of the committee. They have been together so long and have been conferring together so long and ignoring the minority that they have not any information whatever about what the minority want to do. They are simply talking about what the Republican membership wants to do.

Mr. McKenzie, how do you account for this referendum covering less than one hundred thousand of the between one and two million members who might have expressed themselves in this referendum.

Mr. McKENZIE. Do you live in the country when you are home?

Mr. GARNER. I do.

Mr. McKENZIE. Do you know what the farmers have to do in harvest time?

Mr. GARNER. I do.

Mr. McKENZIE. Then you know how hard it would be to get them to leave the reaper or the mowing machine and get them to attend a meeting.

Mr. GARNER. I understand that fully, but I assume that when you undertake to take a referendum of between one and two million men that you could at least, by mail or otherwise, reach a larger percentage of them.

Mr. McKENZIE. We could probably have gotten 800,000 by mail who would have answered letters.

Mr. GARNER. What I was trying to impress upon you was that if your organization is going to make itself felt, as I think it should—and I believe it represents a good sentiment in this country and an element that should have been represented heretofore in a concrete form—I believe that it is to your interest to obtain an expression from a larger percentage of your people than 1 in 10 or 1 in 15.

Mr. McKENZIE. This matter came up right in the midst of harvest, and it was almost impossible to get the men to attend. It was only those who were willing to neglect their own business to come and attend to this thing which we urged upon them.

Mr. FREAR. Mr. Chairman, if the witness is going to be limited in his time, may he now be permitted to go on with his statement, because he has some very interesting matters to present to the committee.

The CHAIRMAN. Proceed, Mr. McKenzie.

Mr. McKENZIE. Before going into the details of some of these other matters, I want to call the attention of the committee to some things, or at least to one thing, in regard to the testimony brought forth before the Finance Committee of the Senate. There is one very interesting thing in regard to that, and that is the character of the witnesses that appeared on the different sides of the sales tax question, the excess-profits tax, and the income tax. If you will go carefully over the witnesses who appeared there on those subjects, you will find that without exception, all the representatives of the agricultural elements of this country, the representatives of the labor unions, the representatives of labor on the railroads, and all the representatives of the great mass of the people in this country, are opposed to a general sales or overturn tax.

The CHAIRMAN. In other words, everyone who appeared wanted the tax put on the other fellow.

Mr. McKENZIE. Well, you can put it that way, if you choose.

The CHAIRMAN. The merchants are for the sales tax and the other people are against it?

Mr. McKENZIE. The farmers are not in favor of the sales tax which they would have to pay, and probably would have to pay as much as three times. In addition to the point you have raised, that the farmers are in favor of having the other side pay the tax—

The CHAIRMAN. I did not say the farmer.

Mr. McKENZIE. Well, everybody.

The CHAIRMAN. I just say that the man that wants the tax shifted wants it shifted to the other fellow.

Mr. McKENZIE. It might be said that the farmers are not experts and that their judgment on that question is not good.

Mr. GARNER. And it might be said that since we are shifting this matter, that the Republicans told the people last November they would take off the taxes and not shift them, and now they are proposing to shift them from the wealthy, and the people most able to pay, to the mass of the people.

The CHAIRMAN. Permit me to say that the gentlemen is wholly in error, but that is about as near as he ever gets to being right.

Mr. FREAR. Let me suggest that we are not getting facts from the witness but getting into politics and I would suggest that the witness be allowed to proceed with his statement.

Mr. MCKENZIE. I just wanted to call the attention of the committee to the fact that the agricultural population had some very good backing in the conclusion to which they came; and that is, if you will go over the testimony of the expert economists, Prof. Fairchild and a professor from Columbia University, and the rest of those men who have made an expert study of this thing all their lives, you will find that they agree absolutely with the conclusions of the farmers.

The only men you have appearing on the other side of the question are special pleaders; men who have special interests to serve. You will find that all the great newspapers in the country are in favor of the general overturn or sales tax. They do not deal in goods, wares, and merchandise. You will find that the people who pay the taxes now, many of the great banks and others, are in favor of a tax on goods, wares, and merchandise which they do not handle, and I wanted to call the attention of the committee to the fact that the men who are in favor of the sales tax and in favor of reducing the high surtax brackets and abolishing the excess-profits tax, are men who chiefly have special objects to serve, and I think this committee—

The CHAIRMAN. Mr. McKenzie, kindly devote your time to some other subject than the sales tax, please.

Mr. MCKENZIE. Yes.

Mr. OLDFIELD. He was getting into the excess-profits tax question, which I think is very interesting.

Mr. MCKENZIE. I would like to call the attention of the committee to the principles on which the farmers of this country think that any change that is made in our present tax system ought to be based.

Those principles are four: First, that net income is the true measure of a man's ability to pay taxes for the support of the National Government; second, that the rate should be progressive; that is, the larger the income the higher the rate; third, that as this is a country of all the people, everybody ought to have some part in supporting the National Government, and therefore a certain proportion of the taxes can justly be raised through the tariff and other consumption taxes. Fourth, that while we recognize that the first consideration in any tax measure is the raising of revenue, its collateral effect can not be lost sight of, and in so far as practicable the taxes should be so laid as to tend to a distribution of wealth among the many and not to its concentration in the hands of the few.

Now, if there are any of the committee that object to any of those principles, I will be glad to answer any questions.

Mr. YOUNG. What do you mean by other consumption taxes outside of the tariff?

Mr. MCKENZIE. The sales tax would be a consumption tax. There are many of them. The soda-water tax is another one.

Mr. GARNER. You have a consumption tax in the post-office tax, have you not?

Mr. MCKENZIE. It is a tax that comes from all the people, but I would not class that as a consumption tax.

Mr. GARNER. It is a commercial tax and a tax that the masses have to pay.

Mr. McKENZIE. The great bulk of it is paid by business.

The CHAIRMAN. Mr. McKenzie, can you tell us some plan by which we can raise money for the support of this Government without getting it from the people?

Mr. McKENZIE. No; I could not do that.

Mr. CRISP. What does your organization think of an inheritance tax?

Mr. McKENZIE. We have an inheritance tax now.

Mr. CRISP. We have one that raises a certain amount of money, but in my judgment the Government could raise a great deal more money from some of these large incomes under an inheritance tax.

Mr. McKENZIE. The amount of money that is raised from an inheritance tax, in my judgment, should depend very largely on how you get the rest of your money. If you allow the wealthy to escape their fair share of taxes while they live, then you ought to take it from them when they die.

The CHAIRMAN. Would you not rather take it from a live man than a dead man?

Mr. McKENZIE. Yes, sir.

Mr. FREAR. Mr. McKenzie, will you please start in now on the excess profits tax, because that is what you were going to talk about.

Mr. GARNER. Before you proceed, you spoke of an inheritance tax and Mr. Fordney asked you whether you would not prefer to take it from a live man rather than from a dead man. You do not take it from a dead man. You take it from the man who inherits it as an heir after the other man dies. The man who inherits it did not earn a dollar of it, and you take that and distribute it back to all the people through the Treasury. The fact is that it is an artificial law that gives him that right. You have no inherent right to inherit from your father or your son from you. It is a right given to you by law, an artificial right given to you by society, and you should be willing to pay for that right, since you did not earn any of the money you inherited. I think that is the proper position with reference to the inheritance tax.

Mr. McKENZIE. I agree with you on that, but there is one other thing you should keep in mind, and that is, that one of the great incentives to a man to work and earn money, which is to the advantage of all the people, is that he shall be able to lay up something for his posterity when he is gone.

The CHAIRMAN. Mr. McKenzie, on the other hand, the gentleman from Texas argues that the wife upon a farm and the daughter and the son who remain with the father and work every day, digging in the soil, milking the cow, and helping to collect the eggs and make butter and so on, do not take any part in the accumulation of wealth by the farmer.

Mr. McKENZIE. They do not; most of them work for nothing.

The CHAIRMAN. They do just as much work as the father.

Mr. McKENZIE. But they do not get any of it.

Mr. FREAR. May I suggest to the witness that he stick as closely as possible to the subject if his time is to be limited.

Mr. McKENZIE. Now, if we agree as to the general correctness of these principles I have laid down, and I have not found anybody who

seriously contended that they were wrong; in fact, the strongest advocates of the sales tax admit in principle that those four principles are right. It is only in their application that they differ. We get down now to the question of fact. If those principles are sound, how shall we distribute this tax burden so as to be fair to all the people in view of those four principles?

Now, there must be some reason for a change, if we are going to abolish the excess-profits tax and reduce the surtax brackets. I have sat for nearly two years and heard nearly all the men in the United States who have advocated the sales tax talk, and up to date I really have not heard any argument which, in my judgment, warrants the lowering of these surtax brackets on the personal income tax. They tell you that these taxes run up to 73 per cent, which is true, and that that takes away from a man the incentive to earn, and that therefore they would bring in more money if you put them down a lot lower. Now, if their statement was generally true that it did take from the men of large income, 73 per cent of their net income, I think there would be some justice in their contention, but if you begin to examine the facts, you will find that their statement is not borne out. Senator Smoot is responsible for the statement over in the Finance Committee, a little while ago, that men with incomes of \$300,000 and up already have two-thirds of their money in tax-free securities. Now, if they escape taxation on two-thirds of their income already, where is the justice of letting them escape any part of the tax on the other one-third? There is absolutely no merit in that argument so far as I can see.

Mr. YOUNG. Did I understand you correctly to say that on your referendum vote, you are opposed to a change in the Constitution so as to reach those people?

Mr. McKENZIE. Oh, absolutely, no. We think that Congress, if anything, is remiss in not having taken steps heretofore to stop the issuance of those tax-free securities.

Mr. YOUNG. You want all securities to be taxed?

Mr. McKENZIE. Absolutely. There seems to be a difference of opinion, so far as my knowledge goes, as to whether it is necessary to have a constitutional amendment or not. I think that if there is any serious doubt about that, it is the duty of the men here, who are looking after the welfare of the United States, to see that a law is enacted and the thing is brought to a head and settled as to whether you can tax those "tax-free" securities or not. Then, if it proves to be the fact that the Supreme Court will not allow you to do that, you should pass a constitutional amendment so that these men who have large wealth can not put their money where they can escape contributing to the support of the United States Government.

Mr. YOUNG. I see that you have given a lot of study to this matter; do you think that a sufficient number of the State legislatures would approve a constitutional amendment of that kind?

Mr. McKENZIE. I can assure you of this, that the great bulk of the farm organizations will back such an amendment and use all the power they have in the legislatures to have it passed, and while I have no authority to speak for the labor unions or for that element of the people whatever, I think they would equally do the same thing, because it is to their interest just the same as to all the rest of

the people. I do not have much doubt that that can be done if you get behind it and push it.

Mr. FREAR. Mr. McKenzie, you have a table there gotten out by the Treasury Department in reference to the investments of the men with large incomes in various kinds of securities.

Mr. MCKENZIE. Yes; I have a table here that shows the investments by classes, from \$1,000 to \$2,000,000, and shows the various sources from which their income is derived. For instance, "Wages and salaries," "Business," "Partnership profits," "Profits from sales of real estate, stocks, and bonds," "Rentals and royalties," "Dividends," "Interest and investment income," and then the total. The very surprising thing in that table to people who have not given that phase of the question any attention is the very large percentage of income that these wealthy men derive from dividends. Beginning with \$300,000, \$500,000, \$1,000,000, \$1,500,000, and \$2,000,000, and over, the percentage of income derived from dividends is 43.63, 45.24, 53.65, 56.62, 51.97, and 72.28, so that all of them get more than half of their income from dividends.

Mr. FREAR. If that table is not printed in the Senate report it had better be incorporated here?

Mr. MCKENZIE. It is not, and I will put it in the record.

Mr. FREAR. What is the date of that statement?

Mr. MCKENZIE. For 1918, the last.

When you get to the "Interest and investment income," that is another surprising thing. Taking the same figures for that year, they were 13.45, 13.46, 14.99, 12.51, 17.90, and 18.49 per cent, so that a comparatively small amount of the investments of these very rich men in 1918 was in taxable securities.

Mr. FREAR. That includes the tax from investments and all others?

Mr. MCKENZIE. Yes, sir.

(The table referred to by Mr. McKenzie follows:)

Distribution of personal income by sources and by income classes, showing the proportionate amounts from each source expressed in percentages, calendar year 1918.

Income classes.	Wages and salaries.	Business.	Partnership profits.	Profits from sales of real estate, stocks, and bonds.	Rents and royalties.	Dividends.	Interest and investment income.	Total income.
\$1,000 to \$2,000.....	74.67	10.20	1.57	0.53	5.18	1.93	5.92	100.00
\$2,000 to \$3,000.....	65.42	18.01	2.52	.83	5.53	2.27	5.42	100.00
\$3,000 to \$5,000.....	48.56	27.06	4.34	1.54	6.59	5.27	6.64	100.00
\$5,000 to \$10,000.....	33.55	25.67	9.38	2.73	7.08	12.89	8.70	100.00
\$10,000 to \$20,000.....	33.10	14.16	10.39	3.20	5.73	23.73	9.69	100.00
\$20,000 to \$40,000.....	28.76	9.69	11.77	2.20	3.97	33.01	10.60	100.00
\$40,000 to \$60,000.....	23.79	7.65	13.49	2.08	3.58	38.44	10.97	100.00
\$60,000 to \$80,000.....	21.51	7.39	14.91	1.85	3.12	39.26	11.96	100.00
\$80,000 to \$100,000.....	19.00	6.71	14.90	1.28	2.54	44.08	11.49	100.00
\$100,000 to \$150,000.....	15.92	6.37	17.33	1.84	3.07	43.18	12.29	100.00
\$150,000 to \$200,000.....	13.10	7.79	16.41	1.25	1.93	44.18	15.34	100.00
\$200,000 to \$250,000.....	11.22	6.28	22.51	1.32	1.83	45.40	11.44	100.00
\$250,000 to \$300,000.....	10.73	7.38	21.21	2.16	1.44	43.63	13.45	100.00
\$300,000 to \$500,000.....	9.62	5.63	22.72	1.01	2.32	45.24	13.46	100.00
\$500,000 to \$1,000,000.....	4.37	6.86	14.50	2.68	2.95	53.65	14.99	100.00
\$1,000,000 to \$1,500,000.....	6.29	1.89	21.19	.89	.61	56.62	12.51	100.00
\$1,500,000 to \$2,000,000.....	1.81	5.26	22.05	.31	.70	51.97	17.90	100.00
\$2,000,000 and over.....	.63	.25	1.34	1.90	5.11	72.28	18.49	100.00
Total.....	46.59	17.61	6.85	1.64	5.50	13.91	7.90	100.00

The CHAIRMAN. There is an investment of \$6,000,000,000?

Mr. McKENZIE. \$16,000,000,000.

The CHAIRMAN. There are not \$16,000,000,000 of taxable securities in existence?

Mr. McKENZIE. The estimates I have had vary from \$15,000,000,000 to \$30,000,000,000.

The CHAIRMAN. You have it more than double the tax-free securities?

Mr. FREAR. Do you know the value of the real estate in this country owned by people, following the question of the chairman?

Mr. McKENZIE. No, sir.

Mr. FREAR. The value of all other kinds of securities owned by the people?

Mr. McKENZIE. No.

Mr. FREAR. What was the income of corporations?

Mr. McKENZIE. I can tell you.

Mr. FREAR. What was it?

Mr. McKENZIE. In 1919 it was \$8,900,000,000.

Mr. FREAR. In one year?

Mr. McKENZIE. Yes, sir.

Mr. FREAR. Compared with \$6,000,000,000 of tax-free securities, according to the information that has been given.

The CHAIRMAN. That was not my statement. The statement was that large incomes had been invested in tax-free securities. That is what the gentleman was talking about.

Mr. FREAR. That is right.

Mr. McKENZIE. There is another important matter in regard to reducing the surtax, to which I would call attention. If you will go over the testimony in the Senate you will find over and over again that they brought forth the fact that the high tax rate was causing men to invest in tax-free securities. Every witness who appeared on the other side said, "Put down the rate and they will not put money into tax-free securities." I submit that their conclusion is not logical. The logical conclusion from that situation is to abolish tax-free securities. No one seemed to see it, at least they did not mention it if they did see it.

Mr. FREAR. What would you think of the policy of Congress in reducing the tax so as to stop these investments in tax-free securities on the one hand and on the other hand to reduce the surtax in order to reach the evil?

Mr. McKENZIE. Abolish the tax-free securities, that is the thing which should be done. At least, if not done, no change should be made. A man with \$300,000 income is only paying about 17 per cent if he has two-thirds of his money in tax-free securities; he is not paying enough now.

Mr. GARNER. You would not abolish all tax-free securities?

Mr. McKENZIE. Absolutely. What is the use of permitting a man to invest his money where the Government can not tax him?

Mr. GARNER. I doubt whether your organization will back you up.

Mr. McKENZIE. They will.

Mr. GARNER. If you abolish tax-free securities the banks will close up. I do not believe that the farmers want that?

Mr. McKENZIE. They stand by it. The farmers are losing more money in this control by the wealthy men of these securities.

The CHAIRMAN. Will you please furnish information to that effect?

Mr. McKENZIE. All right. I will go right back to the figures. Before the Senate Finance Committee Prof. Seligman said——

The CHAIRMAN (interposing). You are going to tell us something that somebody else said.

Mr. FREAR. There is no better authority than Prof. Seligman.

The CHAIRMAN. But what do you know about it?

Mr. McKENZIE. He says that we are losing at least \$600,000,000, to say nothing of the taxes being lost by the several States that have income-tax laws and that we are only saving on interest on farm loans \$2,000,000. My judgment is that the figures of Prof. Seligman are entirely too low, and that instead of losing \$600,000,000 you are losing nearly \$1,000,000,000.

The CHAIRMAN. Please furnish the committee with some figures to bear out that statement?

Mr. McKENZIE. This is the only way. There is no way to get that information except from the taxpayer and that is absolutely impossible.

Mr. GARNER. That is the only way that he can do it.

Mr. YOUNG. Can you tell us just what tax each farmer would pay and how much it would be reduced if we raised this money in some other way?

Mr. McKENZIE. You could not do that in five years. The farmers are wise enough to know this, that when you allow these men who have all these tax-free securities to escape without paying their tax, which would run, as the table shows, to 73 per cent, they are simply holding the bag for these very wealthy men. The farmers are perfectly willing to get out of the farm loan banks after the tax is put on these other fellows.

The CHAIRMAN. Mr. McKenzie, you were only to be heard for 30 minutes, and we can only allow you 10 minutes more.

Mr. FREAR. Why?

The CHAIRMAN. Because we must hear some other witness in 10 minutes.

Mr. GARNER. May I say this, including the chairman, if you will permit me to interrupt Mr. McKenzie, I remember well when Mr. McKenzie started to make his statement, the chairman interrupted him before he had spoken three minutes. I think that he is entitled to be heard.

The CHAIRMAN. If the gentleman from Texas will not interrupt the witness any more than the gentleman from Michigan we will get along much better.

You may proceed for 10 minutes, without interruption, Mr. McKenzie.

Mr. FREAR. I ask for a vote of the committee. Here is a man who has come several hundred miles and who represents nearly 2,000,000 people.

The CHAIRMAN. You need not argue on the reasonableness of the committee.

Mr. FREAR. I appeal from the decision of the chairman that the gentleman be heard for only 40 minutes.

The CHAIRMAN. We have other gentlemen to be heard and the committee has voted to have hearings for four days.

Mr. FREAR. We should have hearings for 40 days on this \$4,000,000,000 proposition.

The CHAIRMAN. What is the wish of the committee?

Mr. GARNER. You stated, Mr. Chairman, a moment ago that the committee had voted for four days' hearings. I deny that statement and call for the record of the clerk.

The CHAIRMAN. The Republican members of the committee.

Mr. GARNER. All right. I only want the record to show that.

The CHAIRMAN. The Republican members of the committee agreed to that, and, as chairman of the committee, I am trying to see that the gentlemen can be heard, but they can not be heard for an unlimited length of time.

Mr. McKENZIE. I will be as brief as possible.

Taking up the question of excess-profits tax on corporations, it is generally admitted that the principle of the excess-profits tax is right. Even Mr. Kahn, one of the leading exponents of the sales tax, says in a pamphlet which he has printed that it is founded on correct principles, so there is not very much difference as to that question. It is only when it comes to the application that we get into any serious difficulty. They come to Members of Congress and say that the excess-profits tax is a serious burden on business. We are perfectly willing to admit that the raising of \$5,000,000,000 is bound to be a serious burden on somebody, but our contention is that the taxing of the corporations is a legitimate function. All the corporations receive privileges from the State which are extremely valuable, and therefore they are fit subjects for special taxation. They come to you and say that these taxes are strangling the corporations, that they have to have relief or business will blow up. That is not true, if any of them will submit figures to show that fact. So far as I have ever seen they come and ask you to take their word, and when you begin to examine into the facts you find that the facts do not bear out their statements. I was curious enough to go and dig up some of the data in regard to that matter.

If it is true that the excess-profits tax is strangling the corporations one of the first signs you will see is that men of business sense will stop putting their money into corporations. Nobody will put his money where he thinks it will not earn him something. I went back to 1918, 1919, and 1920. I dug up the new corporations with a capital of over \$100,000, and here is what it shows: In 1918 new corporations of over \$100,000 capital were formed amounting to \$3,000,000,000; in 1919 they amounted to \$12,000,000,000, and in 1920 they amounted to \$13,000,000,000.

Mr. FREAR. That was the excess-profits tax?

Mr. McKENZIE. That was the amount of authorized capital stock. That is the measure of the opinion of the people of the United States of the effect of the excess-profits tax on the corporations.

There is another thing that will show the same thing, if it is true, and that is the net earnings of the corporations. I went back to 1909 and found out what were the net earnings of the corporations during that year, what they amounted to, and it was in rough figures \$3,000,000,000. Then I came down 10 years to 1919, when the excess-profits tax was in effect, and it amounted to \$8,900,000,000. Both of those things absolutely answered their theory; it is not doing any such thing.

Mr. GARNER. You do not object to my interrupting you for just a moment, but your position is that it should be paid by the corporations?

Mr. McKENZIE. I have some theories, as you have probably observed. I think that a progressive tax is very much preferable to a flat tax. You can see and every member of the committee can see that a flat tax is very much harder on corporations with a small per cent of earnings than on corporations with high earning power. My whole theory has been to get a little better deal for the little fellow.

Mr. OLDFIELD. We will never get any more out of the corporations by continuing the present flat rate?

Mr. McKENZIE. You will get \$550,000,000 out of them this year. You should go back to the principle of progressive taxation and not let these profiteering corporations and others who are not, which make big dividends up to 100 per cent, off with a flat tax, which is not a fair share of the tax burden. In general the proposition seems to be to repeal the excess-profits tax and lower the surtax brackets on individuals to a maximum of 40 per cent.

Let us see what the reasons are for this. The greatest result will be that it will allow men of large incomes to keep the securities that they still possess, that are taxable and of high earning power, and not be compelled to sell them and put the money into tax-free securities.

The Government will lose \$600,000,000 of revenue. There is no justice in relieving the corporations and men of wealth of these taxes and keeping the tax on transportation, which amounts to \$331,000,000 and is a very serious burden on all the people as well as on business. When the Government can afford to reduce taxes, it should begin with those that will help the mass of the people and not with those that affect chiefly those of large income.

There is one other thing. The statement was made before the Senate committee over and over again by nearly every witness that the excess-profits tax on the corporations has added 23.2 per cent to the cost of living, according to the figures of the Department of Justice. That struck a good many people as being very curious. You never could figure that out, nobody could. So I was curious enough to send down to the Department of Justice. I sent an expert investigator to get the figures and to see how they arrived at the figures. The man I sent was Mr. Peacock, who had formerly been employed in the Treasury Department, and I quote from his letter. [Reading:]

I am very much afraid that it may not be possible to run down in the Department of Justice the author of the famous 23.2 per cent. I say this not because I have not tried to do so, but because the Department of Justice really does not know very much about it. In particular I have discussed the matter with Mr. Reid, who is the attorney who has succeeded to the kind of work which was done in the high-cost-of-living campaign carried on a year or so ago. He said that several times the same question had been raised, in one case by a Congressman, and although he has had thorough examinations made of the files he has not yet been able to run down any reference to this percentage or to any such investigation. As a matter of fact, he was rather interested in my showing him the definite statement in type in one of Rothschild's pamphlets; so he took down Rothschild's name and address and said he would write him and ask him for his authority for the quotation. He promised to let me know if he finds out anything more about it, and really seems to be quite interested in running it down, in view of the fact that it has been questioned several times.

Then, again, on June 6, he wrote me:

One thing is very evident, viz, there was no intensive or other investigation of the tax burden carried on by the Department of Justice, as no record can be found of anything of the sort and no one connected with the department remembers anything about it.

Mr. FREAR. I want to interrupt to say that Mr. Goff, the assistant to the Attorney General, wrote me to the same effect about two months ago when I asked him for the authority; he said there was nothing on the subject in the records of that department.

Mr. McKENZIE. I should like to repeat the recommendations that I made before the Senate Finance Committee for your consideration.

The CHAIRMAN. That is in the record and we can get a copy of it.

Mr. McKENZIE. The first was to abolish the issuing of tax-free securities. That we are opposed to the enactment of any general sales or turnover tax, that we are opposed to the lowering of the surtax brackets, so long as the tax-free securities are in existence, and that we are opposed to the abolition of the excess profits tax and shifting the burden from income to consumption tax.

I thank you, gentlemen.

Mr. FREAR. May I ask one question, what is your business?

Mr. McKENZIE. I am a farmer and lumberman.

Mr. FREAR. You are engaged in corporation business?

Mr. McKENZIE. Yes, sir.

CHARLES A. LYMAN, SECRETARY OF THE NATIONAL BOARD OF FARM ORGANIZATIONS, WASHINGTON, D. C.

The CHAIRMAN. Mr. Lyman, you may state your name loud enough so the committee can hear it, and state who you are, and whom you represent.

Mr. LYMAN. I am Secretary of the National Board of Farm Organizations, with headquarters at 1731 I Street, this city.

The National Board of Farm Organizations is a Federal and a clearing house of national or State farm organizations. It is primarily interested in agricultural cooperation—cooperative buying and cooperative selling. Our organization includes most of the large self-help organizations; those which have no governmental support, including the National Farmers' Union; the three national equity societies; the National Milk Producers' Federation, which in itself includes the cooperating milk marketing associations from coast to coast, and other organizations of that type.

Mr. YOUNG. Does it include the National Grange?

Mr. LYMAN. No; the National Grange is not affiliated with our organization. The only grange that is affiliated is the grange of the State of Pennsylvania, with a membership of 83,000. The master of the State Grange of Pennsylvania, Mr. John A. McSparran, is a member of our executive committee.

Mr. Chairman, with your permission, I would be glad to file a list of our officers and the associations and organizations affiliated with our organization.

The CHAIRMAN. Just hand it to the reporter.

(The list referred to was afterwards furnished by Mr. Lyman and is printed in full, as follows:)

NATIONAL BOARD OF FARM ORGANIZATIONS, WASHINGTON, D. C.

MEMBER ORGANIZATIONS.

Farmers' Educational and Cooperative Union of America.
 Farmers' National Congress.
 National Agricultural Organization Society.
 National Conference on Marketing and Farm Credits.
 Florida Citrus Exchange.
 National Dairy Union.
 Pennsylvania Rural Progress Association.
 National Milk Producers' Federation.
 Farmers' Society of Equity.
 Federation of Jewish Farmers of America.
 American Association for Agricultural Legislation.
 American Society of Equity.
 Intermountain Farmers' Association.
 Pennsylvania State Grange.
 Farmers' Equity Union.
 Wisconsin State Union, American Society of Equity.

GENERAL BOARD.

C. S. Barrett, chairman, Union City, Ga.; Milo D. Campbell, Coldwater, Mich.; Gifford Pinchot, Milford, Pa.; R. D. Cooper, 303 Fifth Avenue, New York City; J. A. McSparran, Furness, Pa.; Charles McCarthy, Madison, Wis.; J. H. Kimble, Fort Deposit, Md.; Maurice McAuliffe, Salina, Kans.; C. W. Holman, 1731 Eye Street NW., Washington, D. C.; E. M. Sweitzer, Shippensburg, Pa.; J. D. Miller, Susquehanna, Pa.; Richard T. Ely, Madison, Wis.; C. G. Patterson, 306 Judge Building, Salt Lake City, Utah; H. E. Stockbridge, Atlanta, Ga.; E. L. Harrison, Lexington, Ky.; Richard Pattee, 51 Cornhill Street, Boston, Mass.; A. V. Swift, Baker, Oreg.; W. J. Kittle, Crystal Lake, Ill.; A. P. Sandles, Columbus, Ohio; N. P. Hull, East Lansing, Mich.; C. O. Drayton, Greenville, Ill.; Otto F. Rohm, Black Creek, Wis.; C. A. Lyman, secretary-treasurer, 1731 Eye Street NW., Washington, D. C.; C. E. Stewart, Tampa, Fla.; Noyes Matteson, Clintonville, Wis.; Anton Oppegard, Washington Building, Madison, Wis.; E. C. Pommerening, Washington Building, Madison, Wis.; Benj. C. Stone, 174 Second Avenue, New York City.

EXECUTIVE COMMITTEE.

R. D. Cooper, chairman; C. S. Barrett, Gifford Pinchot, J. A. McSparran, J. H. Kimble, C. A. Lyman, secretary.

The CHAIRMAN. Does that conclude your remarks, or do you desire to address the committee further?

Mr. LYMAN. I would like to make a short statement, Mr. Chairman, with reference to the position of the National Board of Farm Organizations on certain phases of taxation.

The CHAIRMAN. Very well; you may proceed.

Mr. LYMAN. Now, we hear constantly that the country is demanding a repeal of the excess-profits tax, and so forth and so on.

Undoubtedly there is a widespread demand on the part of the great business interests for a repeal of the excess-profits tax and for the substitution of other kinds of tax. We are perfectly willing to have Congress in its wisdom adopt a program, an up-to-date and proper program, to meet changed conditions. But when it is stated constantly that this demand is insistent, we want to know where it comes from; we want to know who makes the demand, and we want you to know that one great portion of the country does not subscribe to that position.

The CHAIRMAN. The men you represent are not affected, as a rule, by the excess-profits tax, are they?

Mr. LYMAN. I think they are.

The CHAIRMAN. It does not affect the farmers, as a general thing?

Mr. LYMAN. I did not mean to get into a discussion on that subject, except to show just how they are interested.

The CHAIRMAN. For instance, you say the organization you represent is not affected by the excess-profits tax?

Mr. LYMAN. Yes; I think they are very materially affected.

Mr. YOUNG. The chairman means, not many farmers pay an excess-profits tax.

Mr. LYMAN. No, sir.

Mr. GARNER. But they are affected in this way: If you repeal the excess-profits tax, the money will have to come some other way, and they are liable to pay a good deal of it?

Mr. LYMAN. That is the thought I had in mind. As a matter of fact, I misunderstood the chairman. The average labor on the farm, and the average income on the farm, I don't know just what it is shown to be in the past decade, but during the decade from 1900 to 1910 it was \$318.22.

Mr. HADLEY. That is, yearly?

Mr. LYMAN. Yes; yearly.

Mr. HADLEY. \$318 a year?

Mr. LYMAN. \$318.22 a year; but that did not credit anything for the rental of the house and the wood which the farmers got from wood lots. Of course, they do not all have wood on their places. I want to say also that neither did it include anything for the services of the wife of the farmer. As a matter of fact, the average farmer, gentlemen, is not paying excess-profits taxes, or income taxes, either. There is an exceptional farmer who does, but about half of the farmers in the country are tenant farmers, and the rest of them are on the ragged edge at the present time. In fact, the majority are in a pitiable condition.

The resolutions which I was able to get together to-day, where we have taken a position on this matter, I will present to you. They are not long, Mr. Chairman. If the first one seems a little bit drastic, I would point out that it was adopted in August, 1918, at a time, or about the time when the country pretty generally was willing to accept the thought of a League of Nations, and the hope of a real brotherhood among men, and that there would not be any more wars in the world. So if you think we were a little too enthusiastic at that time, I hope you will consider the times and the occasion.

The CHAIRMAN. In other words, it was thought by some there might be a League of Nations?

Mr. LYMAN. That resolution was adopted by our board on August 27 to 29, 1918, as follows: It is headed "Excess Profits," and is as follows [reading]:

The profits arising out of war should go to paying the expenses of the war.

We therefore approve the taking of at least 80 per cent of excess profits and all incomes over \$100,000 and a graduated tax on all incomes under \$100,000 with an exemption of incomes below \$2,000 per year, and further, we urge that Congress pass this important revenue measure previous to the date of the floating of the next Liberty loan.

And then I find that in September of last year, at a September meeting of our board, held in Columbus, Ohio, September 1 to 3, 1920, we said with reference to taxation:

We favor the support of graduated income and excess profit taxes, supplemented by a graduated inheritance tax to furnish the additional revenue needed to meet the cost of the war.

Again, in April, of this year, April 20 to 22, we had a meeting of the board, and adopted a resolution stating as follows (reading):

The cost of the war has made the subject of taxation one of outstanding importance. If our tax laws are not made to lay the burden equitably upon all our people as nearly as possible, it will mean great suffering and disaster to many people in this country. Expert economists advise, in order that the burden may fall most evenly, taking into consideration the shifting of taxation to the ultimate consumer, that income taxes should produce about 75 per cent of the money raised and consumption taxes about 25 per cent.

Resolved, therefore, That the National Board of Farm Organizations approve the continuance of the present surtaxes on incomes and excess profits and earnestly disapprove the substitution of a gross-sales tax.

Now, those are the resolutions that I was able to locate this noon. I have got many resolutions from member organizations going into the matter in more detail and at greater length, expressing more dissatisfaction, if possible, than these do, and in addition to that our board itself has, I think on nearly every occasion at its annual or semiannual meetings, gone on record similarly.

Now, I am not speaking for any other organizations other than our own, but, Mr. Chairman, I would like to point out that the National Grange is opposed to a repeal of the excess-profits tax.

Mr. TILSON. Mr. Lyman, what would be the objection to a repeal of this tax, if it were found that in the judgment of the business men who are directly taxed and directly interested, that they were in favor of a straight income tax, instead of the excess-profits tax? What would be the objection of the farm organizations to that change, if those men who are more directly affected believed that they would be affected less harmfully?

Mr. LYMAN. I would answer that if the farmers were satisfied that the taxes would be laid equitably upon the business of the country—

Mr. TILSON. Suppose it is assumed that it is a shifting from an excess profits tax on the corporation to a straight income tax on the same corporations, collecting the same amount from the same general source; what would be the objection of the farmers' organizations to that plan?

Mr. LYMAN. Possibly there would be no objection to that. I would not want to attempt to commit our organization to that, however. That is something that might possibly be worked out to their satisfaction. But the point I am trying to make is that the farmers as a class are right close—I would say right close to the bread line; but they are not the people that are making large profits or getting large incomes, and they are impressed with the fact, Mr. Congressman, that there is building up under our present system a concentration of wealth that is not good for the Nation. That is, under the machinery afforded by the corporation an accumulation and concentration of wealth is taking place which farmers do not envy in itself—but as good citizens of this country, and hoping to preserve the country from harm, they do feel that there ought to be some plan of taxation worked out which will carry out that old principle of Mills, or somebody else, of the greatest good to the greatest number for the longest time.

Mr. TILSON. And are not those resolutions largely born out of a fear that if this excess-profits tax is repealed, with the necessity for increased taxation, that the tax will be raised, in part out of the farmers, and that they will be hit harder than they are now, and especially by a sales tax?

Mr. LYMAN. Possibly.

Mr. TILSON. Those resolutions indicate that they were fearing a sales tax.

Mr. LYMAN. Yes; they were fearing it because there was so much being said about it at that particular time by men in high places, who apparently had great influence in putting it through.

But I want to say, Mr. Chairman, that it is not just a theory with our groups. I do not come here as a tax expert at all; I am a farmer, have been a farmer all my life, with the exception of the last two or three years since I have been in this position, but we have men in our group who are qualified to speak on that subject, and I am sure it is not a theory with them.

Mr. LONGWORTH. Do you not think that the excess-profits tax has been one of the principal reasons or causes of the excessively high prices?

Mr. LYMAN. No; I can't see it that way. I know there are a great many people who say that.

Mr. LONGWORTH. Do you not think that the excess-profits tax has been passed on to the consumer?

Mr. LYMAN. Well, I think, very frankly, that with the exception of the farming group and possibly one or two other groups that are not really organized, that business has the capacity to pass on the rate of interest and taxation, etc. I do think that, but I can not see, for the life of me, how it is that if there is no profit, why the excess-profits tax will do any harm, and if there is an excess profit by reason of the understandings made through open price associations—and we have that, Mr. Congressman, as you know, in connection with all the basic commodities—coal, iron, lumber, steel, leather, textiles; they all have these open price associations, and the present Secretary of Commerce is helping in that very thing, probably in a proper way—undoubtedly in a proper way, to encourage them to compare notes, as to quantity of production, etc. It amounts to an open price arrangement, where they can get together, and knowing the uniformity of costs, can ask about the same prices. And knowing those things, and with their organizations, they can pass on such factors as taxes, interest rates, transportation, and tariffs.

Mr. GREEN. Let me call your attention to this: We reduced the excess-profits tax greatly in 1919, payable in 1920; instead of bringing about any reduction of prices, the prices were very greatly increased. And then we failed to reduce it the next year, and prices came down.

Mr. LYMAN. May I ask a question, gentlemen: Supposing that through some understanding now the coal dealers were to ask a certain price, and they are, quite openly—and they are raising their price at the first of the month again and you find at the end of the year that they have large profits—excessive profits—how are you going to reach them?

Mr. FREAR. Mr. Lyman, remember first that 8 per cent including the exemption, is allowed before the tax is laid. Of course, that

much can not be passed on; there is no excess profits in that. But these people who feel that they can charge any price, pass it on. But I have received and put into the record a statement from the Attorney General's office to the effect that there is nothing on which to base a charge that the 23 per cent is passed on.

Mr. LYMAN. I think I understood that. But what I was getting at is this: Supposing that by agreement or understanding they found they could do it. Take the flour mills during the war. Their profits went up enormously. Now, they did not take all that out of the consumer; they did not know what the profits were going to be, probably, until the end of the year. And at the end of the year they found that an arrangement made with the Food Administration, Mr. Hoover, and Julius Barnes, gave them this profit. They had not taken it out intentionally, you see, but at the end of the year they had this astonishing profit.

The CHAIRMAN. Mr. Lyman, I obtained, by sending a man to a wholesale dealer in this town, the wholesale prices of flour; two grades of flour, and one was \$7.75 per barrel, and the highest grade was \$10.75 per barrel. I learned from that wholesale dealer that the retail dealers in this town have been selling flour at 3 cents a pound above the wholesale price, which is \$6 a barrel above the wholesale price.

Mr. LYMAN. Yes.

Mr. OLDFIELD. Do you not think that these gentlemen who make these profits should be charged the excess-profits tax?

The CHAIRMAN. The Democratic Party charged these things, and the President came up to Congress and wanted a resolution passed to enable them to deal with the situation, and the Republicans voted with the Democrats and gave them authority, and they were going to put all the profiteers in jail, if there was any agreement of that kind. Instead of putting them in the jails, the jails were empty at the end of the war. How to control that, I do not know.

Mr. HAWLEY. Mr. Lyman, the question has been frequently asked here, and I suppose you have the information, what per cent of the farmers in this country pay the normal income tax?

Mr. LYMAN. Well, I have seen those figures, but I do not recall them.

Mr. HAWLEY. And what per cent pay the surtax?

Mr. LYMAN. I do not have those figures here.

Mr. HAWLEY. Will you put those figures in your statement?

Mr. LYMAN. I will be glad to if they can be obtained.

The CHAIRMAN. The statement was made in the committee room about two years ago that 6,000 farmers pay an income tax. That was stated here a little over two years ago.

Mr. GARNER. There is only one source of information that I know of where you can get the facts, and that is at the Treasury Department. I would like to know how Mr. Lyman or anybody else knows how many farmers pay the income tax, or the excess-profits tax, unless they go to the Treasury Department for the information.

The CHAIRMAN. I have not got it. If you can get it and put it in your statement, it will be a favor.

Mr. LYMAN. I will endeavor to do that.

The CHAIRMAN. Now, Mr. Lyman, we have heard you for 30 minutes, and there are three other gentlemen here who say they

would like to be heard, and it is getting late. If you will file your statement, if you have anything more to say, with the clerk, we will print such matter as you have.

Mr. LYMAN. Mr. Chairman, I would just like to refer to one other statement, and that is a statement made by Mr. Milo D. Campbell, of Coldwater, Mich., who is a friend of yours.

The CHAIRMAN. Yes; I received a letter from him the other day, and he said it was a great mistake not to put a duty of 25 per cent on butter and 30 per cent on milk.

Mr. LYMAN. I wonder if you would not let me just refer to this statement of Mr. Campbell's?

The CHAIRMAN. I am exaggerating a little what he said, but I did not miss it very much.

Mr. LYMAN. Mr. Campbell is president of the National Milk Producers' Federation and is a member of our general board, and this matter to which I desire to call attention is in a statement made by Mr. Campbell before the Southern Commercial Congress last winter [reading]:

There is another purpose upon which American farmers must unite, and that purpose is the all-important one of taxation. For months the great chambers of commerce of the United States, representing the great interests of the Nation, have been here in this city, planning and preparing for Congress, measures for the shifting of excess and sur taxes from the shoulders of the heavy taxpayers to the shoulders of the common people.

We would greatly rejoice if the time had come when no income tax were necessary. But if an income tax is sound in principle, to abolish the excess-profits tax and spread it upon the common citizen at this time would be a crime that would invite the whirlwind of indignation against those responsible for the change.

Mr. GARNER. Let me see if I understand your general position. The general position of your organization and the farmers of this country is that they object to having any excess-profits tax repealed and placing that tax upon them, or partially upon them?

Mr. LYMAN. Yes, sir.

Mr. GARNER. But if the tax can be levied with equal effect and in equal amount upon the corporations, you are not prepared to say that that would not be equally as successful and as satisfactory to you as an excess-profits tax?

Mr. LYMAN. Except that the people who have worked on this matter do not believe there is a substitute. We do not think there is anything to take its place. There might be some qualification. We also have gone on record for higher inheritance taxes.

Mr. GARNER. Suppose you got the money from an increased income tax the same amount, \$400,000,000, and you collected \$200,000,000 from an additional inheritance tax. You would not be opposed to that?

Mr. LYMAN. No, sir; not if the \$200,000,000 were raised in addition.

Mr. GARNER. And if you collected \$200,000,000 from a normal increase on the income tax of corporations, would there be any objection to a change in that position?

Mr. LYMAN. I would be glad to have that question and put it out immediately to our executive committee. I would not want to make any reply at this time.

The CHAIRMAN. All right, Mr. Lyman, we thank you for your statement.

Mr. LYMAN. May I just say that I represent a very large number of farmers, and that I know that the National Grange and other farm organizations are all against a repeal of the excess-profits tax. And then I want to just throw out this thought: That with the exception of the business interests—and I do not blame them for getting what they can and asking what they do—nobody else, no other organization that is representing the average voters in this country is asking for it. I have not seen the National League of Women Voters asking for it. I am sure they would be opposed to it. I have not seen the Housewives League asking for it. I am sure they would be opposed to it. And I have not seen the Consumers League asking for it, or any of the other great organizations, representing the average voter, nor the labor organizations; none of them are asking for it. I do not know of any such groups that really want it.

The CHAIRMAN. Why, Mr. Lyman, people have been around here telling us that it is just like Mellin's food, that the children are crying for it.

Mr. FREAR. The gentleman who just preceded you, complained of the proposed substitution of an increased normal tax for the excess-profits tax, because these corporations are not paying the excess-profits tax to-day. In response to the suggestion of Mr. Garner, I suppose your people, and the people of like organizations, do not object if they can agree to pay the same amount of tax; they can adjust it fairly then with all parties?

Mr. LYMAN. Yes. I thank you, Mr. Chairman and gentlemen of the committee.

BRIEF OF GREGGERSON BROS., OMAHA, NEBR.

DEAR SIRS: I thank you for your telegraphic advice regarding the final tax hearings before the committee, and regret very much that I can not be present this week.

I would like to offer a suggestion that the most effective way to stop profiteering would be an excess-profits tax of, say, 80 per cent levied on corporation profits in excess of 25 per cent on invested capital or on net profits in excess of 25 per cent on total sales, this to be levied on same basis as the 80 per cent war tax in 1918, under which basis one of the above two methods would apply if the corporation exceeded the 25 per cent earnings stated above.

Exemptions should be made in the case of brokers or commission men who handle an enormous volume of business at a rate of profit as low as 1 or 2 per cent, in which case the invested capital is so disproportionate to the profits that the tax should not apply.

It is a fact that many lines of business to-day are earning in excess of 25 per cent net profits on capital, or in excess of 25 per cent net on sales, and under present conditions it is simply profiteering. If the excess-profits tax is eliminated entirely, there may be no limitation to the earnings and greed of certain corporations, and to meet this condition the above suggestion is made. It would appear to be fair and just for the Government to demand a large share of such excessive profits obtained through sheer profiteering.

Another matter which could be eliminated without any detriment to the Government and which would relieve taxpayers of an enormous amount of work is the elimination of the withholding at source by corporations of tax on interest on their bonds or their securities held by citizens only (withholding should be exercised against aliens). This would include the elimination of all ownership certificates accompanying bond interest coupons.

It is readily seen that under the law every taxpayer swears to his return as being true and correct. We must take for granted that every taxpayer includes in his income interest received on corporation bonds and securities.

We have no reason whatever to think that the taxpayer would report all other income and leave out bond interest; if safeguards are to be set up for the purpose of verifying this infinitesimal part that bond interest plays in

the total income of all taxpayers, why not erect a multitude of safeguards for the purpose of verifying all other income.

The idea or principle back of this interest reporting system of collecting at source, and the use of the millions of ownership certificates is cumbersome and antiquated, and should be eliminated entirely. The Government will not lose a single penny in tax by eliminating all of this, and the abolition of this nonsense will save banks and other taxpayers hundreds of thousands of dollars' worth of work, trouble, and annoyance.

Every corporation which has obligated itself to pay income tax on its bond interest should settle direct with their own bondholders, and the Government should not be made a free clearing house, handling an enormous volume of work in this connection. Every taxpayer should pay tax on all interest received on bonds and obtain reimbursement himself from the paying corporation. The revenue department and the tax laws have always considered such contracts as private contracts and there is no reason whatever for continuing a cumbersome and annoying arrangement like the present.

If these suggestions have been made by some one else, which is likely, this communication can be ignored entirely.

ESTATE TAX.

U. C. DE FORD, ATTORNEY, YOUNGSTOWN, OHIO.

Mr. DE FORD. I am a lawyer by profession.

Mr. TILSON. There are a number of lawyers on the committee. We will forgive you for that.

Mr. DE FORD. I appreciate that. I want to speak to the committee on the subject of the Federal estate tax.

Mr. GARNER. What section is that in the present law?

Mr. DE FORD. The section I want to refer to particularly is section 403, under title 4 of the act of 1918. The purpose of this discussion is to point out an ambiguity in the law, and it is illustrated by the remarks of Mr. Miller, in connection with the gentleman here on the extreme right, Mr. Crisp. Mr. Miller says his brother-in-law died in February of 1919; that his brother-in-law's wife died nine days later, probably on the 9th of February. This act was approved by the President on the 24th day of February, 1919. It is the revenue bill that was signed by the President when he returned from his first trip to Paris. I believe it was taken over to Boston to be signed. The act of 1916 provided for a graduated estate tax, beginning at 1 per cent of the net estate above \$50,000, and going up as the amount of the estate increased. The act of 1916 was amended in March, 1917, and it increased from a percentage of 1 per cent; starting in at 1½ per cent, the rate is increased. In October, 1917, we had the revenue law of 1917. So at that time we had the act of 1916, and the act of 1916 as amended in March, 1917, and then we had the revenue act of October 3, 1917, providing for rates on estates of \$50,000 net estate. In 1918, in addition to providing for a tax on the net estate—I said 1918, but it was passed or approved February 24, 1919—section 403 in addition to providing for a tax on the net estate, provided that for the purpose of the tax the value of the net estate shall be determined—

(a) In the case of a resident, by deducting from the value of the gross estate—

1. Such amounts for funeral expenses, administration expenses, claims against the estate, unpaid mortgages, losses incurred during the settlement of the estate arising from fires, storms, shipwreck, or other casualty, or from theft, when such losses are not compensated for by insurance or otherwise, * * *

2. An amount equal to the value at the time of the decedent's death of any property, real, personal, or mixed, which can be identified as having been received by the decedent as a share in the estate of any person who died within five years prior to the death of the decedent, or which can be identified as having been acquired by the decedent in exchange for property so received, if an estate tax under the revenue act of 1917—

That was of October 3, 1917.

or under this act—

That is, of February 24, 1919.

was collected from such estate, and if such property is included in the decedent's gross estate—

This goes on to define what shall be deducted in determining any estate, and among other things it provides that any part of the estate that came from a decedent who died within five years, on which a tax had been paid once, that it should not again be subject to the estate tax. Instead of covering a period of five years and so avoiding a double tax, it only covers a period of 20 months, because it put in this provision.

Mr. GARNER. What page are you reading from?

Mr. DE FORD. Page 46, section 403, paragraph 2, in addition to the five-years' provision, it provides:

if an estate tax under the revenue act of 1917 or under this act was collected from such estate, and if such property is included in the decedent's gross estate.

And so forth.

In the case put by Mr. Miller, she had not paid, her estate had not paid, Mr. Miller's brother-in law's estate had not paid estate tax under the act of 1918, because he died before that act went into effect, and, as the gentleman here says, the wife died nine days afterward, and she died too soon. It did not relieve the estate, the five years; in other words, the estate was taxed twice within 10 days.

Mr. GARNER. The reason was because the act of 1917 did not have this very wholesome provision in it that is in the act of 1918.

Mr. DE FORD. Yes.

Mr. GARNER. It did not have the same provision for deduction.

Mr. DE FORD. Yes, but it specifically provides if another tax under the act of 1917 or "under this act" was collected. If it said, and that is what Congress meant to say, was that no part of the estate should pay a tax twice within five years, but it did not stop there. They put in these provisions, and when they got into it, it was just as the gentleman here said, I think you can get that back.

Mr. CRISP. I was on that committee, and that was the intent of Congress when they passed it.

Mr. YOUNG. Would it not be more fair to charge a tax covering every inheritance, or make the time of payment five years distant or something of that kind? Why should you discriminate between one inheritance and another?

Mr. DE FORD. You discriminate just for this reason, and this is what I wanted to say to this committee: Many men and women who live past middle life go to the grave pretty close together. It is not an uncommon thing for a man to die and his wife to die nine days or nine months afterwards. The vice of this law is that many men will leave the bulk of their personal estate to the widow and before she enters into the possession of it an estate tax is taken out. If the man dies and in less than a year the widow dies, an estate tax

is again taken out, and it is double taxation of the worst kind. Of course, the very thing that led to this provision in the act was that Congress wanted to remedy that condition and said here that no part of the estate shall be subject to an estate tax twice within five years.

Mr. GARNER. Would you include in your remarks such an amendment of paragraph 2 of section 403, as would accomplish the purpose intended by Congress?

Mr. DE FORD. I will give it to you right now:

Or which can be identified as having been acquired by the decedent in exchange for property so received, if an estate tax was collected from such estate and if such property is included in the decedent's gross estate.

That is the language I suggest. In other words, I leave out of the present act, the words "under the revenue act of 1917 or under this act," in the phrase "if an estate tax (under the act of 1917 or under this act) was collected," and I just say that, "if an estate tax was collected within five years no part of such estate shall be again subject to taxation."

Mr. YOUNG. Would you make it apply to any case of inheritance or limit it to a case where husband or wife died leaving the property to the surviving wife or husband?

Mr. DE FORD. Apply it generally. Let me state another thing. I have a bill here introduced by Mr. Fordney to correct this very thing.

Mr. YOUNG. What about the question? You tell us about that particular instance where the husband dies and soon thereafter his wife dies, and you think that in cases of that kind they ought not to pay more than one tax, and perhaps that is true. In correcting the law, do you want to correct that in such a way as to cover the case where a man dies and leaves property to some one more distantly related and he or she dies nine months after that? Why should there not be another tax on that?

Mr. DE FORD. There should be, and there will be, in the law, as I have suggested it.

Mr. YOUNG. I want to know whether your amendment will cover the case only of property left by the husband to the wife or the wife to the husband?

Mr. DE FORD. No.

Mr. GARNER. This is an estate tax, not an inheritance tax.

Mr. DE FORD. It is an estate tax.

Mr. GARNER. It applies to an estate but not to an individual inheritance. It does not make any difference where it comes it can not be taxed for five years, on the theory that you ought not to levy too much exaction on the same property too often. I think that is very clear and to my mind that is the reason Congress made this exception.

Mr. YOUNG. To make a second tax possible five years later.

The CHAIRMAN. Take the case of a husband and wife and five children, and the estate was passed on from the husband to the wife and from the wife to the child and so on to the next and they all die within the year's time, would you pay seven inheritance taxes?

Mr. DE FORD. That is it.

The CHAIRMAN. Your plan is that that property should pay but one inheritance tax during the period of five years.

Mr. DE FORD. Yes.

Mr. GARNER. That is all right.

Mr. DE FORD. If he should die having an estate of \$500,000, and it is within five years, from the estate, he would pay on the balance of that estate that had not been paid once before in the five years.

Mr. GARNER. Let me see if I can illustrate. Take an estate that consists of \$500,000. You collect an inheritance tax on it. A person gets that estate and within that five years or within four years makes \$1,000,000 out of it. Then he would pay on \$1,500,000 at the end of five years. That is your theory?

Mr. DE FORD. It follows the five years on the whole estate, except these exemptions. That is the idea. Just since Mr. Miller was on the floor here, the other gentleman told me of a case where a man died and left his estate to his wife, and 12 hours afterward his wife died.

Mr. GARNER. But because of this mistake of wording the exception by Congress, you would not repeal the entire estate tax as a Federal proposition, would you?

Mr. DE FORD. No. The estate tax, of course, among lawyers, hangs on a very slender point, but we are not discussing that. Every decision except one by every court in this country has held that the right to tax an inheritance or a succession, or whatever you call it, is based upon the sole right of inheritance given by law, and that the right of a man's wife and children to inherit from him is not a natural right.

Mr. GARNER. That is right.

Mr. DE FORD. I would not want to make a decision of that kind. I think if there is any natural right under high heaven it is the right of my wife and children to inherit what I have, but that is what the whole inheritance and State tax law hangs on, and is the law.

Mr. GARNER. Your colleagues on the bench in philosophy disagree with you.

Mr. DE FORD. Yes.

Mr. GARNER. You seem to be very familiar with the estate tax. Let me ask you about public policy in the estate tax. It is very desirable in this country to have as near a uniform inheritance tax as is possible.

Mr. DE FORD. Yes.

Mr. GARNER. You come from Ohio?

Mr. DE FORD. Yes.

Mr. GARNER. I come from Texas. It would be, I think, a happy condition, if the tax in Texas in connection with the Federal tax was the same as in Ohio in connection with the Federal tax. How would it be to provide in this law that where a State does not levy any inheritance tax that it shall get from the Federal Government 25 per cent of any inheritance tax collected from the citizens of that State?

Mr. DE FORD. I think that would be fine.

Mr. GARNER. I am glad to hear you say that because I am in agreement with you. That would attend to this one thing, if the States should repeal all of their inheritance taxes and depend on the Federal laws for the tax coming from their citizens.

Mr. DE FORD. We ought to have that law. In Ohio we have a collateral inheritance tax, and about two years ago we got a direct-inheritance tax. Now, we have an inheritance tax in Ohio and in

time a State income tax. So we are going to have two income taxes and two inheritance taxes to pay. And then once in a while some of our rich people go to California and die, and they undertake to make them out residents of California and they have to pay an inheritance tax out there on property they took with them, and if they can make them out residents of California, they tax the Ohio property in California. It is a perfectly impossible situation. If the suggestion you make could be carried out all along the line so that the Federal Government would collect these taxes and turn over a fair proportion to the States, then we would have the thing simplified so it would not take a man's entire estate, if he was a millionaire, to settle it up.

Mr. GARNER. If you happen to have a client and he thinks he is likely to die, tell him not to go to California, because they have the highest inheritance tax of any State in the Union.

Mr. DE FORD. I have been up against that.

The CHAIRMAN. As I understand the gentleman's question, your answer is that the State should receive a certain percentage of the inheritance tax collected by the Federal Government provided the State does not have any.

Mr. DE FORD. That is it. Then you have got it. Now, of course, in Ohio we will reach for this \$50,000; that is exempt, and we will reach for these exemptions in the income tax. We will reach for all of them.

Mr. GARNER. You seem to be very much enamored of the Federal policy of collecting revenue from income and inheritance in Ohio.

Mr. DE FORD. Yes. There is no question about that at all as a practical proposition, because there has been all kinds of litigation. The Supreme Court reports of New York and New Jersey down there, for instance, where they lived in New Jersey and had a business in New York, show that they would quibble and fight about whether a man was a resident of New York City or Hoboken. You can consume an estate. It is just this kind of a proposition why lawyers have trouble about this inaccuracy which grows out of this.

Mr. GARNER. Do not misunderstand me. I am not an enemy of that provision of the bill. I believe we ought to have a uniform inheritance tax.

Mr. DE FORD. I understand that. We had the Federal estate tax of 1916, and then the Federal estate tax of 1916 was amended by that of March, 1917, and then there was the Federal estate tax of 1917, which was the act that went into effect October 3, 1917. It was without recognizing all these distinctions that these provisions got in here about if an estate tax under the revenue act of 1917 or under this act (of 1918), was collected from such estate, etc. Evidently, when they spoke of the revenue act of 1917, the idea was that covered all these provisions of the revenue laws, but it only covered one of them.

I have a case in mind. The first case that came to my attention was a case of this kind where the husband and wife made twin wills, one willing to the other and both agreeing to will half to one's heirs and the other half to the other's heirs. The widow or the wife—it was not according to the plans of either—the wife died in June, 1917, before the act of October, 1917, went into effect. The husband died on the 18th of February, 1919, six days before the act of 1918 was signed by the President. They were out under both laws under all

the laws. The wife willed to the husband, paid an estate tax on \$505,000, and then the husband, who was in the hospital for an operation, died in less than two years and never had anything to do with her estate except to settle it up and pay the Government tax on the \$505,000. Then it was added to his estate and was subject not to the low rate of 1 per cent where they started, but to the high rate where it goes up to 10 and 12 per cent, so that the double dose on the \$505,000 amounted to more on account of the high percentage than the estate tax on the million and more dollars that the husband's estate alone amounted to.

Mr. GARNER. You have made your position clear.

Mr. DE FORD. I would like the committee to correct this in the interests of every man that has an estate over \$50,000 if you can write into it a provision so that we can get rid of the State laws and let the Government collect and pay their proportion.

The CHAIRMAN. The thought just comes to me that there are various rates of inheritance taxes in many States. Suppose that we should put a provision of that kind in the law and the States would not repeal their provision? What would we do?

Mr. TILSON. It would not apply.

The CHAIRMAN. Or if they did we would not know how much money is going to be paid into the Treasury of the United States, or disbursed to the various States, unless all the States of the Union did repeal their inheritance taxes. It would be somewhat difficult. I am asking for information. That thought occurs to me since you were talking about it.

Mr. DE FORD. If the State did not repeal their laws, if they had laws, or having enacted laws of their own, of course, they could not participate in the provision of the Federal law.

The CHAIRMAN. But if it did then the Government would have to keep on through various States a certain percentage, provided they, of course, did not do it and it would be against the State which did not. Suppose the State said, "No; we shall not repeal our inheritance law, but will put one on of our own. Then our Federal law would say it should not apply to that State. In other words, there would be no partial demand to that State; therefore, the law State would get soaked 100 per cent Federal tax in addition to their own tax.

Mr. GARNER. That is the pleasure of the State, and besides the individual living in the State might still pay the same rate that he would if he had to pay an inheritance tax, subject to an inheritance tax. It is the pleasure of the State whether it accept the provisions.

Mr. TILSON. They would have to pay more because they would have to pay one inheritance tax to the Federal Government and another to the State government.

Mr. CRISP. Speaking for myself, I am in thorough accord with you and would like to see the law amended. I want to say when this bill was passed the committee had legislative bureau experts and Treasury Department officials and all went over this bill and it was the intent of the committee that all of this should be exempted for five years. Of course, we largely in the verbiage deferred to the legislative drafting experts.

Mr. DE FORD. It was very clear the first time that I came over this law that that was the intent. There is just one thing I would like to know, and that is when this bill is drafted and put into shape, how we are going to see a copy of it? Is it formulated by this committee?

Mr. GARNER. You will get that when the Republican conference gives over the private program, which will probably be just before they introduce a rule to shoot it through. Just when that will be I do not know, but two or three weeks probably.

The CHAIRMAN. What did you ask for?

Mr. DE FORD. I am quite anxious that in order that this may get through that this be put into this bill in the right form, so that it will not be subject to the question of amendment and revision and all that.

The CHAIRMAN. I am a member of this committee, but I am not a lawyer and have not a very high opinion of some lawyers on this committee. If you will be kind enough to prepare such an amendment as you would suggest, I will submit it to the committee for their consideration.

Mr. GARNER. That is the reason I suggested to put in the record your suggested provisions in this bill. If you write it out in type-written form and hand it to the chairman, I would not mind having a copy of it myself.

BRIEF OF U. C. DE FORD, YOUNGSTOWN, OHIO—ESTATE TAX REVISION.

The primary purpose of the revision of section 403, Title IV, estate tax, revenue law of 1918, approved February 24, 1919, is that no net estate in excess of \$50,000 shall have an estate tax imposed and collected upon it more than once in every period of five years, and if such taxes have so been imposed more than once under said law, or any law heretofore enacted imposing taxes upon an estate, the same shall not be collected if so imposed more than once within five years.

An estate tax has always been regarded as an emergency law to produce revenue to provide for immediate needs. All the property of the entire country passes through the tribunals having jurisdiction over the settlement of decedents' estates at least once in 33 years. The high level of prices that will never settle back to prewar standards makes it necessary, especially for dependent widows and minor heirs, to have more for their education and support than at any time heretofore.

The first estate tax, approved September 8, 1916, imposed 1 to 10 per cent.

This act was amended and approved March 3, 1917, and carried a tax of 1 to 15 per cent.

The act of 1917, approved October 3, 1917, carried a tax of 2 to 25 per cent.

The act of 1918 (under revision), approved February 24, 1918, carried a tax of 1 to 25 per cent and set out the manner of determining the net estate (sec. 403) and undertook to provide that no part of any estate should be taxed more than once in five years, but utterly failed by inserting the words "under the revenue act of 1917 or under this act," so qualifying it that a period of exemption of not to exceed 20 months was provided for instead of five years as it was the intention of Congress.

TREASURY DEPARTMENT REGULATIONS NO. 37.

Under these regulations of the Treasury an estate may be taxed many times in five years and is, in fact, free for only 20 months.

"ART. 50. *Property taxed within five years.*—There may be deducted from the gross estate under this heading an amount equal to the value at the time of the decedent's death of any property which can be identified as having been received by him as a share in the estate of any person who died within five years prior to the decedent's death, if an estate tax under the revenue act of 1917 or the revenue act of 1918 was collected from such estate. There may also be deducted an amount equal to the value of property which can be identified as having been acquired by the decedent in exchange for property received as a share in the estate of such a prior decedent. In order to establish the right to this deduction it must be shown—

"(1) That the two deaths occurred within five years of each other;

"(2) That the first decedent died after October 3, 1917, the date of the passage of the revenue act of 1917, and that the second decedent died after February 24, 1919, the date of the passage of the revenue act of 1918;

"(3) That an estate tax has actually been collected from the estate of the prior decedent (the mere filing of a return for such an estate not being sufficient); and

"(4) That the property received from the prior estate was returned as part of the gross estate of the prior decedent, and the property the value of which is sought to be deducted, or property taken in exchange therefor, has been included in the gross estate of the second decedent.

"The statute limits the deduction to the value of property which can be identified by the executor as having been received or acquired in the manner described. The burden rests upon the executor of proving that the estate is entitled to this deduction.

"ART. 51. *Property originally received.*—If the property originally received from the prior estate is included in the decedent's gross estate, the executor must describe it fully and prove its identity with the property received from the prior estate. The value to be deducted is the value at the time of the second decedent's death.

"ART. 52. *Property acquired in exchange.*—The deduction for substituted property is limited to property acquired in exchange for the identical property received from the estate of the prior decedent. Where there is a subsequent exchange, the right to deduction is lost. Where, however, property is sold and the proceeds immediately invested in other property, the property purchased is deemed to be taken in exchange and its value is deductible.

"In the case of an exchange the executor must describe and identify fully both the property originally received from the prior estate and the property acquired in exchange therefor. He must also state the date and nature of the transaction by which the exchange was effected, the name and address of the transferee, and the consideration, if any, given or received by the decedent in addition to the property received from the prior estate. If the exchange was made by written instrument of public record, a precise reference must be made to the record containing the instrument, and if by instrument not of record a copy of the instrument must be supplied. If there was no written instrument, an affidavit as to the facts of the exchange by one or more persons having personal knowledge of the matter must be furnished.

"If at the time of exchange the decedent gave a consideration in addition to the property received from the prior estate, and acquired property of greater value than the property so received, there may be deducted the proportion of the value of the property received in exchange which the value of the property bears thereto."

We therefore suggest that section 403 of Title IV, estate tax, revenue act of 1918 be revised to read as follows:

SEC. 403. That for the purpose of the tax the value of the net estate shall be determined—

(a) In the case of a resident, by deducting from the value of the gross estate—

(1) Such amounts for funeral expenses, administration expenses, claims against the estate, unpaid mortgages, losses incurred during the settlement of the estate, arising from fires, storms, shipwreck, or other casualty, or from theft, when such losses are not compensated for by insurance or otherwise, and such amounts reasonably required and actually expended for the support during the settlement of the estate of those dependent upon the decedent as are allowed by the laws of the jurisdiction, whether within or without the United States, under which the estate is being administered, but not including any income taxes upon income received after the death of the decedent, or any estate, succession, legacy, or inheritance taxes;

(2) An amount equal to the value at the time of the decedent's death of any property, real, personal, or mixed, which can be identified as having been received by the decedent as a share in the estate of any person who died within five years prior to the death of the decedent, or which can be identified as having been acquired by the decedent in exchange for property so received, if an estate tax was collected from such estate and if

SEC. 403. That for the purpose of the tax the value of the net estate shall be determined—

(a) In the case of a resident, by deducting from the value of the gross estate—

(1) Such amounts for funeral expenses, administration expenses, claims against the estate, unpaid mortgages, losses incurred during the settlement of the estate, arising from fires, storms, shipwreck, or other casualty, or from theft, when such losses are not compensated for by insurance or otherwise, and such amounts reasonably required and actually expended for the support during the settlement of the estate of those dependent upon the decedent as are allowed by the laws of the jurisdiction, whether within or without the United States, under which the estate is being administered, but not including any income taxes upon income received after the death of the decedent, or any estate, succession, legacy, or inheritance taxes;

(2) An amount equal to the value at the time of the decedent's death of any property, real, personal, or mixed, which can be identified as having been received by the decedent as a share in the estate of any person who died within five years prior to the death of the decedent, or which can be identified as having been acquired by the decedent in exchange for property so received, if an estate tax under the revenue act of 1917 or under this

such property is included in the decedent's gross estate. *No Federal estate tax, however, in any event shall be collected upon any such portion of any decedent's estate properly identified or so acquired by exchange and identified upon which such a tax has been imposed and collected once under any revenue law providing for an estate tax within five years prior to such deceased person's death.*

(3) The amount of all bequests, legacies, devises, or gifts to or for the use of the United States, any State, Territory, any political subdivision thereof, or the District of Columbia for exclusively public purposes, or to or for the use of any corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, or to a trustee or trustees, exclusively for such religious, charitable, scientific, literary, or educational purposes. This deduction shall be made in case of the estates of all decedents who have died since December 31, 1917; and

(4) An exemption of \$50,000.

The foregoing provision will provide revenue for the Government based on the succession of property to every person once in five years, leaving a net estate of more than \$50,000 and avoid a double tax during such period of from 1 to 25 per cent on estates going in most cases to widows and minor heirs. If the property enhances in value following the death of first decedent during the time it is owned by the second decedent, or if he gives it to charity, the Government has received the tax once in five years, even though the second decedent uses it or disposes of it for charitable uses and purposes, rendering it nontaxable.

act was collected from such estate, and if such property is included in the decedent's gross estate.

(3) The amount of all bequests, legacies, devises, or gifts to or for the use of the United States, any State, Territory, any political subdivision thereof, or the District of Columbia for exclusively public purposes or to or for the use of any corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, or to a trustee or trustees, exclusively for such religious, charitable, scientific, literary, or educational purposes. This deduction shall be made in case of the estates of all decedents who have died since December 31, 1917; and

(4) An exemption of \$50,000.

Rates and tax due.

Net estate.			1	2	3	4
Exceeding—	Not exceeding—	Amount of block.	Sept. 9, 1916, to Mar. 2, 1917, inclusive.	Mar. 3, 1917, to Oct. 3, 1917, inclusive.	Oct. 4, 1917, to Feb. 24, 1919, inclusive.	On and after Feb. 25, 1919.
			Per cent.	Per cent.	Per cent.	Per cent.
	\$50,000	\$50,000	1	1½	2	1
	50,000	150,000	2	3	4	2
	150,000	250,000	3	4½	6	3
	250,000	450,000	4	6	8	4
	450,000	750,000	5	7½	10	6
	750,000	1,000,000	5	7½	10	8
1,000,000	1,500,000	500,000	6	9	12	10
1,500,000	2,000,000	500,000	6	9	12	12
2,000,000	3,000,000	1,000,000	7	10½	14	14
3,000,000	4,000,000	1,000,000	8	12	16	16
4,000,000	5,000,000	1,000,000	9	13½	18	18
5,000,000	6,000,000	1,000,000	10	15	20	20
6,000,000	7,000,000	1,000,000	10	15	20	20
7,000,000	8,000,000	1,000,000	10	15	20	20
8,000,000	9,000,000	1,000,000	10	15	22	22
9,000,000	10,000,000	1,000,000	10	15	22	22
10,000,000			10	15	25	25

[H. R. 13054, Sixty-sixth Congress, second session.]

A BILL Preventing the collection of a double Federal estate tax upon any portion of an estate upon which a Federal estate tax has been imposed and collected within a period of five years prior to any decedent's death.

Be it enacted, etc., That hereafter no Federal estate tax shall be collected upon any portion of any decedent's estate upon which such tax has been imposed and collected within five years prior to such deceased person's death.

HON. C. WILLIAM RAMSEYER, A REPRESENTATIVE IN CONGRESS FROM IOWA.

Mr. RAMSEYER. Mr. Chairman and gentlemen of the committee I know you are in a hurry to close the hearings on this bill so you can get it in shape to report to the House. I only want to take a few minutes of your time, and if I should take over seven or eight minutes, I shall be obliged to you, Mr. Chairman, if you will call my attention to it.

The CHAIRMAN. I will do that.

Mr. RAMSEYER. A few days ago I introduced a bill (H. R. 7910) to amend Title IV of the revenue act of 1918, proposing certain changes in the inheritance tax law. The first section of this bill proposes substantially doubling the present rates. The present rates run from 1 to 25 per cent. I am not appearing before you to impose upon you or try to impose upon you the exact percentages that I have in the bill, but to impress upon you the importance of increasing the inheritance tax rates and to call to your attention a large and inexhaustible reservoir where additional revenues can be gotten without continuing some of the present burdensome taxes now weighing so heavily on the backs of the people.

Mr. GARNER. I took occasion a moment ago to say to a gentleman that if we could get enough Republicans to join with us we would repeal his tax. If we could get enough Republicans to join us in the consideration of your bill, the inheritance tax will be increased. I think every Democrat is in favor of increasing the inheritance taxes.

Mr. RAMSEYER. I know one Republican who favors an increase in the inheritance taxes.

The CHAIRMAN. If he could have gotten enough Republicans the other day he would have reduced the import duties.

Mr. CHANDLER. The gentleman's party is already dead, and they will not have to pay any additional taxes.

Mr. RAMSEYER. Then it is time we collect a large inheritance tax on that party.

Mr. CRISP. Mr. Ramseyer, I am very much interested in your proposition. Have you made any estimate as to how much revenue the rates levied in your bill would produce to the Government?

Mr. RAMSEYER. I have made a very rough estimate. I have called upon the Treasury Department to give me a more definite estimate. I will explain the bill in just a minute. Of course, doubling the rates on the transfer of estates would double the income to the Government from that source, but I have some other provisions here which I think would greatly increase the income to the Government. At present we collect less than \$150,000,000. I think my bill would produce in the neighborhood of \$500,000,000.

Now, as a preface to my explanation of this bill, I wish to read an excerpt here from a very important volume, not so much for the

benefit of this committee but for the benefit of members who possibly will read the hearings. I got my first ideas about the inheritance tax from Andrew Carnegie, and I remember at the time that I read with much interest his essay on the "Gospel of Wealth," and with your indulgence, for the purpose of getting it in the record, I want to read a few brief sentences, and then I will explain my bill.

Mr. CHANDLER. Can you tell us how much inheritance tax Andrew Carnegie's estate paid?

Mr. RAMSEYER. It paid all it was subject to as the law existed then. It is true that Andrew Carnegie disposed of a large part of his fortune during his lifetime, and in this book he advocates that men ought to administer their estates before they die.

Mr. YOUNG. In that case the public got nearly 100 per cent of his estate.

Mr. RAMSEYER. That is true, but I do not think a man ought to be allowed to give away during life or to bequeath all his estate to charitable and educational institutions, tax free, because the State is interested and has an interest in the estate of every man living, and has a right to say how that estate shall be disposed of at his death. With your indulgence, I will read just a few brief sentences from the "Gospel of Wealth." On page 11 Mr. Carnegie says:

The growing disposition to tax more and more heavily large estates left at death is a cheering indication of the growth of a salutary change in public opinion.

Of all forms of taxation this seems the wisest. Men who continue hoarding great sums all their lives, the proper use of which for public ends would work good to the community from which it chiefly came, should be made to feel that the community in the form of the State, can not thus be deprived of its proper share. By taxing estates heavily at death the State marks its condemnation of the selfish millionaire's unworthy life.

It is desirable that nations should go much further in this direction. Indeed, it is difficult to set bounds to the share of a rich man's estate which should go at his death to the public through the agency of the State, and by all means such taxes should be graduated, beginning at nothing upon moderate sums to dependents, and increasing rapidly as the amounts swell, until of the millionaire's hoard, as of Shylock's, at least the other half "comes to the privy coffer of the State."

One more sentence, and this is Mr. Carnegie's answer to the argument of some that if you tax estates heavily you will take away the incentive of men to accumulate. If I had my way of taxing I would not put so large a tax on incomes—that is, I would not make it so heavy that it would discourage initiative, discourage accumulations, because men ought to be encouraged to produce and to accumulate. I do not envy any man the money he makes through his genius or skill or industry, or even by luck, but the community in all those cases has a very important part in making such accumulations possible and protecting such accumulations during the lifetime of those making them. On this point Mr. Carnegie says, on page 12:

Nor need it be feared that this policy would sap the root of enterprise and render men less anxious to accumulate, for, to the class whose ambition it is to leave great fortunes and be talked about after their death, it will attract even more attention, and, indeed, be a somewhat nobler ambition, to have enormous sums paid over to the State from their fortunes.

The CHAIRMAN. I wish to say that you have occupied eight minutes.

Mr. RAMSEYER. I did not realize that time was passing so fast. Of course, part of my time was taken up answering questions. I have other excerpts here which I will not read, particularly one from Theodore Roosevelt, which is quoted in a later article by Andrew

Carnegie which was published in the British Review of Reviews. In this article entitled "My partners, the people," he devoted his whole attention to the inheritance tax.

Mr. GARNER. Will you put those in the record when you revise your remarks?

Mr. RAMSEYER. I will be glad to do so.

Andrew Carnegie in the British Review of Reviews of January, 1907, on page 28, in an article entitled "My partners, the people," begins the article by quoting Theodore Roosevelt. Mr. Roosevelt, in his speech of April 14, 1906, said:

As a matter of personal conviction, and without pretending to discuss the details or formulate the system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all fortunes beyond a certain amount, either given in life or devised or bequeathed upon death to any individual—a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the National and not the State Government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits.

The other excerpts from Mr. Carnegie's article, "My partners, the people," are as follows:

Graduated taxation has been denounced as unjust and socialistic, fatal to individualism, and sure to sap the springs of enterprise. If the writer thought it favorable to socialism or communism, or in the least degree opposed to individualism, he would be the last to favor it, for of nothing is he more fully convinced than that in individualism lies the secret of the steady progress of civilization. Except we build upon the foundation of "As ye sow so shall ye reap," we labor in vain to establish a higher or even to maintain the present, civilization. Virtue must bring reward, vice punishment, work wages, sloth misery. Energy and skill must win a prize denied to indolence and ignorance. He who sows the wind must reap the whirlwind. * * *

But there is nothing sacred about individual ownership except as man has established it as the system under which progress can be made. * * *

The community created the millionaire's wealth. While he slept it grew as fast as when he was awake. It would have arisen exactly as it did had he been on the Harlem and his brother on the Manhattan farm. * * *

When these children die, who have neither toiled nor spun, what canon of justice would be violated were the Nation to step in any way that, since the aggregation of their fellow men called "the community" created the decedent's wealth, it is entitled to a large portion of it as they pass away? The community has refrained from exacting any part during their lives. The heirs have been allowed to enjoy it all, although in their case the wealth was a purely communal growth. * * *

It would be unwise to interfere with the working bees; better allow them to continue gathering honey during their lives. When they die the Nation should have a large portion of the honey remaining in the hives; it is immaterial at what date collection is made, so that it comes to the National Treasury at last.

In a prosperous country, increasing rapidly in population, like our own, by far the greatest amount of wealth created in any department comes from enhanced values of real property.

The census shows that from 1890 to 1900 the value of real estate increased from \$39,544,544,333 to \$52,537,628,164—an increase of \$12,993,083,831. * * *

Therefore no other form of wealth should contribute to the Nation so generously * * *

Now, while the founder of the family must be credited with remarkable ability and with having done the State some service in his day and generation, it can not be denied that the chief creator of his wealth was the increasing communities along the railroads, which gave the traffic that lifted these lines into dividend payers upon a capital far beyond the actual cost of the property. * * *

In the work and its profits the Nation was an essential partner and equally entitled with the individual to share in the dividends. * * *

The increasing population was always the important factor in their success. Why should the Nation be denied participation in the results when the gatherers cease to gather and a division has to be made. * * *

So that these deserve to reap beyond the other class, yet only in degree, because both classes alike depend upon increasing population—the masses, who require, or consume, the article produced, so that even the inventor's wealth is in great part dependent upon the community which uses his productions. * * *

It is difficult to understand why, at the death of its possessor, great wealth, gathered or created in any of these or in other forms, should not be shared by the community which has been the most potent cause or partner of all in its creation. We have seen that enormous fortunes are dependent upon the community; without great and increasing population, there could be no great wealth. Where wealth accrues honorably, the people are always silent partners. * * *

After all, they can absorb comparatively little; and, generally speaking, the money-making man, in contrast to his heirs, who generally become members of the smart or fast set, is abstemious, retiring, and little of a spendthrift. The millionaire himself is probably the least expensive bee in the industrial hive, taking into account the amount of honey he gathers and what he consumes. * * *

Such proportions can be exacted as are deemed proper from time to time, unless it is generally agreed that great wealth at last pays its fair share to the people of the Nation, who were so highly instrumental in creating it or from whom it was gathered. * * *

It is clearly at the rich man's death that the community should exact a large share of the estate, a graduated share, increasing in proportion to its extent. It should be paid over to the Government and applied to the service of the people, the silent but contributive partner from whom it has been so largely derived. * * *

Such contributions from the owners of enormous fortunes at death would do much to reconcile dissatisfied but fair-minded people to the alarmingly unequal distribution of wealth arising from the new industrial conditions of our day and the era of unprecedented prosperity our country has enjoyed for years.

The millionaire himself should rejoice at the thought of being a useful laborer in the national vineyard, and in knowing that his contribution to the general fund at death will lessen the drain upon the scanty resources of his less successful fellows. Wealth left at death seldom does better service than this.

The people see how equivocally in many cases, how unfairly in others, fortunes have been made. Especially have the numerous failures of prominent men in official position to perform their duties properly deeply impressed them and produced a strong feeling of antagonism to wealth and millionaires as a class. * * * As wealth comes mainly from the community, it should be administered as a sacred trust by the temporary recipient for the public good. Property in one sense is a mere creature of the law. Whether the holder be permitted to bequeath it to his successors, and to what extent and how, are simply questions of policy for the people through the Government to determine. * * *

Funds collected by the Government from the estates of the millionaires at death would never be likely otherwise to be put to so good a use as the payment of Government expenditures, relieving the people in part from the burden of taxation. * * *

Meanwhile, as the masses become more intelligent, they may be expected to criticize and denounce the growth of fortunes which fail to contribute largely to the public good, and finally to insist that they shall be made to do so. The first step to this end should be heavy graduated death taxes upon wealth. * * *

Indications of alarm are sometimes seen regarding present conditions. Fears are expressed that a war of classes may arise. On the contrary, there are none but healthful signs in the awakening intelligence and deep interest of the masses in this problem.

Mr. YOUNG. Have you thought about the difficulties of collecting the tax, if you make it too high, for the reason that many times an estate is not liquid? In fact, it may be made up entirely of real estate, which is perhaps not saleable, or some other property that is not saleable, and the part that is to be paid to the Government in the shape of an inheritance tax may be very difficult to raise or finance out of the property. I wanted to ask you this: Have you thought of the possibility of framing the law in such a way as to make it possible to give more time or a different method of settlement with the Government covering estates of that kind? If you are going to make an arbitrary law to cover all estates, do you not think it would be necessary to be rather cautious about the percentage that must go to the Government, because if you put it very high it might break the estate.

Mr. RAMSEYER. My bill does not offer any amendments to the administrative features of the law. The difficulty you suggest can be met by proper amendments. Of course, the rates now run from 1 to 25 per cent. I realize the difficulty that you suggest but I made no attempt to meet it in this bill.

Mr. YOUNG. Do you not think some attention ought to be given to that matter?

Mr. RAMSEYER. I think you are correct about that.

Now, with the indulgence of the chairman, I will briefly state what is in the bill. I have already stated what is in the first section and that the first section proposes to double the present rates. There is another feature in the first section that I think ought to be placed in the law. In the income tax law we recognize a difference between the income of a person at the head of a family and one who is not; that is, the exemption for the head of a family is larger. In this bill I propose to increase the rates to be imposed upon the transfer of the net estate of every decedent not survived by a spouse or children. The provision reads as follows:

That 20 per cent shall be added to each of the foregoing percentages to be imposed upon the transfer of the net estate of every decedent not survived by a spouse and child, or a spouse and children, or a spouse, or a child, or children.

Furthermore, in the last section of the bill I propose to reduce the exemption of that class of decedents. At present there is a general exemption of \$50,000. This bill reduces that exemption to \$10,000 in cases where no spouse or children survive. The last section of the bill reads as follows:

An exemption of \$50,000: *Provided*, That in the estate of every decedent not survived by a spouse and child, or a spouse and children, or a spouse, or a child, or children, the exemption shall be \$10,000.

Now, if you recognize the family as the unit of our social organization, there is no reason under the sun why you should not make a difference in the estate of one survived by persons for whom he is under a natural obligation to make provision and the one who dies without such natural obligation.

The other two sections of the bill pertain to bequests to educational and charitable institutions, etc. At present, all such bequests are exempt from the Federal inheritance tax. At the end of the two paragraphs of the law exempting such bequests I have added this provision:

But in no case shall the amount so deducted exceed 25 per cent of the gross estate, less the deductions specified in paragraph 1, subdivision (b) of this section.

Gentlemen, I am very much obliged to you.

Mr. GREEN. Do you not have a provision in your bill that in case the decedent leaves no immediate relatives——

Mr. RAMSEYER. Yes; if he leaves no spouse or children, each of the percentage rates are increased 20 per cent. That is my provision, and the exemption in such cases is reduced from \$50,000 to \$10,000.

Mr. COLLIER. You think that a man's children ought to have a greater exemption than some distant relative?

Mr. RAMSEYER. Absolutely.

Mr. COLLIER. I agree with you.

Mr. RAMSEYER. In case the decedent is not survived by a spouse or children I reduced the exemption from \$50,000 to \$10,000 and increased the percentage rates to be imposed upon the net estate 20 per cent.

TRANSPORTATION TAX.

EXPRESS COMPANIES.

H. S. MARX, REPRESENTING THE AMERICAN RAILWAY EXPRESS CO.

Mr. MARX. Mr. Chairman and gentlemen of the committee, the transportation taxes are mentioned considerably, sometimes including express and sometimes excluding it, under section 500 of the law.

Section 500, in terms, levies a tax of 3 per cent on freight, 8 per cent upon passengers, and I think it is the same on Pullman passengers, and 1 cent on every 20 cents or fraction thereof of the charge for express transportation.

As I have studied some of the bills which have been introduced to repeal the transportation taxes on freight, passengers, and Pullman fares, I find they do not repeal the tax on express. Others do repeal all of the transportation taxes, including the express transportation tax.

What I wish to impress upon the members of the committee is the necessity we feel of repealing the express transportation tax, if any of the transportation taxes are to be repealed, and even if the freight transportation tax is not, still we believe the express tax should be taken off.

The express business is essentially one of small transactions. A great many shipments are involved, and only a small amount of revenue is received on each shipment. The average charge per shipment is \$1.48, and the tax on that is 1 cent on every 20 cents or fraction thereof. You will notice it is not a straight percentage tax, like that on freight, which is 3 per cent, and like that on passengers, which is 8 per cent, but 1 cent on 20 cents or fraction thereof, which makes it a little more difficult for the agents to compute.

Mr. GARNER. There was a very good reason for that, I think. You are in direct competition, as I understand it, with the Post Office Department in its parcel-post business, are you not?

Mr. MARX. To some extent, yes; that is, the small-package business is naturally very largely carried by parcel post.

Mr. GARNER. I would like to relieve you of all your taxes, except that I do not want to arrange it so that you can put the parcel post out of business. If you can draw a provision that will protect that situation, as far as I am concerned, I would be in favor of repealing your tax.

Mr. MARX. I do not think it would put the parcel post out of business by a great deal if this tax was taken off. Of course, this tax is not on the express company; it is on the patron and it is paid by the patron. The parcel post tax at the present time is 1 cent on every 25 cents or fraction thereof, which makes it a little less than the express tax. The parcel post rates are less in many instances than the rates by express.

Mr. YOUNG. Unless we take into account the insurance feature. In the case of parcel post you do not get any insurance unless you pay for it, but in the case of express there is carried a settlement feature—at least, the companies always do settle—for how much?

Mr. MARX. Up to \$50. So far as the rates are concerned, in many cases the parcel post is cheaper than the express, but in other cases the express is cheaper, and the shippers prefer it because of better service, as they feel there is more care.

Mr. YOUNG. In some cases it is cheaper?

Mr. MARX. Yes; in some cases I think the express is cheaper, but not in many cases. In other words, it does not offset the parcel post.

The express tax, as I say, is collected and must be computed and reported by the agent to his regional accounting bureau, and that bureau sends it in and it is gathered finally in the central office and there reported to the Government.

The parcels post is a stamp tax, and it simply means selling that many more stamps, which is a much easier proposition, because that part of the Government business being organized on that basis, and handling the tax with stamps, makes it much more easier to handle than the express tax, either now or if you were to have stamps. If you had stamps for the express tax the expressman would have to make up his application for the stamps that the company would use, and the company would have to have the stamps and keep the agent's account in connection with those stamps.

Another thing about it is that the Post Office Department is not subject to the tax laws and regulations of all the States and of the Interstate Commerce Commission. We have offices and do business in all of the 48 States of the Union, and we have all of those States regulating our business, requiring reports of our transportation charges, and every one of the reports which our agents have to keep and make up, including the waybill, must keep a record of the shipper and the consignee, the amount and the value, if any, the value charge and the C. O. D. charge, and the war tax separately, and every one of the blanks has to have a separate column, and it often requires a separate computation all the way through. Many of those taxes are on the gross earnings, and that has to be recorded separately.

Mr. FREAR. Do you object to the rate fixed by the law of 1 cent on every 20 cents?

Mr. MARX. No; I want to have it eliminated.

Mr. FREAR. Entirely?

Mr. MARX. Yes.

Mr. FREAR. Would you have it eliminated, provided the passenger traffic and other transportation taxes were retained?

Mr. MARX. Yes; I would. And right there let me say that Mr. Mellon, the Secretary of the Treasury, admitted that the transportation tax was objectionable, and he said he was sorry to advise that it be retained, but because the transportation taxes amount to \$300,000,000 he did not feel at this time that that tax should be taken off. The amount of our tax on express matter is seventeen and a half million dollars, which is very small in comparison with the \$300,000,000 of transportation taxes, and I think, considering the condition as to size, the objection is not so strong with respect to express as it is with respect to freight.

Mr. FREAR. That would be a tax on about \$340,000,000 worth of business, would it not?

Mr. MARX. Yes; gross business.

Mr. HAWLEY. If you are relieved of that tax, as you suggest, would you not have an advantage over the parcels post?

Mr. MARX. I do not think so, because of the conditions surrounding the business; and the difference in the rates, I believe, offsets the advantages which the express companies might gain in removing that tax. I do not think that would enter the shipper's calculation with respect to the parcel post. I think, however, it would materially assist him, or at least be one straw removed from the present burden on the express-using public, because it would reduce, you might say, the rate to just that extent.

There is quite a desire now to have transportation rates reduced. The express rates have been raised somewhat, but not sufficiently to overcome the losses which the business has been sustaining for several years past, and the removal of this tax from the express transportation would relieve the shipper to just that extent, and also relieve the company of the expense of collecting the tax.

Mr. FREAR. You speak of the losses which the companies have sustained. Have they not been paying dividends upon their stock?

Mr. MARX. There has been no dividend paid until within the last few months. Then there was a dividend of 2 per cent paid.

Mr. FREAR. What was that paid on—the actual investment or the capitalization?

Mr. MARX. On the capitalization, which is the actual investment.

Mr. FREAR. Is it?

Mr. MARX. Yes; because the present American Railway Express Co., which was the only express company in this country until May 1, when the Southeastern Co. started into operation in the Southeast—the American Railway Express Co. was organized at the request of the Director General of Railroads for the purpose of transacting all of the express business, when he took over the railroads and transacted all of the railroad business.

That company was organized by the old companies turning into it for stock their horses and wagons and other actual property used in the business, and they received stock for the actual value of that property, and the stock was only issued after approval by the Director General of Railroads.

Mr. FREAR. That was on the property itself; it was not issued in exchange for other stock?

Mr. MARX. No; the companies turned in their property on July 1, 1918, and every piece of that property was valued and checked, and when that was done the Director General of Railroads approved the issuance of the stock.

Mr. HAWLEY. How did they take care of their stockholders then?

Mr. MARX. The stockholders—take, for instance, the Wells-Fargo Express Co.; it turned over its property.

Mr. HAWLEY. Did not the private stockholders have a part of that stock?

Mr. MARX. The private stockholders own their stock in the Wells-Fargo Co.

Mr. YOUNG. It would have to make a settlement with its own stockholders after it got this other stock?

Mr. MARX. Yes.

Mr. CHANDLER. What did they pay the stockholders?

Mr. MARX. The stockholders simply own the stock in the Wells-Fargo Co., and the Wells-Fargo Co. in turn owns stock in the American Railway Express Co. When it received its portion of the dividends, its 2 per cent—

Mr. CHANDLER (interposing). They paid the dividend out to the Wells Fargo stockholders?

Mr. MARX. Yes.

Mr. HADLEY. The long and short of it is that the capitalization was paid for by the transfer of the property at the market value, and the old companies apportioned the stock which they received from the new capitalization among their stockholders?

Mr. MARX. They hold it in their treasury.

Mr. HADLEY. As an asset for their stockholders?

Mr. MARX. Yes.

Mr. HADLEY. That is the same thing.

Mr. MARX. Yes. The actual amount was \$3,000,000 of cash and \$31,642,000 in property. That \$31,642,000 represented all of the property used in the express business throughout the entire United States.

Mr. FREAR. You did \$10 worth of business for every dollar's worth of stock, if, as you say, you did \$340,000,000 worth of business?

Mr. MARX. I do not think it is quite as much as \$340,000,000.

Mr. FREAR. You spoke of \$17,000,000 as the amount of the tax.

Mr. MARX. I will tell you this: That in the year 1920 it was \$333,000,000.

Mr. CHANDLER. Have you the figures in regard to these companies that make up this American Railway Express Co.—that is, the Wells-Fargo and various other companies? Do you know how much outstanding stock there is in the various companies?

Mr. MARX. No; I do not, although, roughly, I think the amount of the Wells Fargo Co. is a little less than \$24,000,000.

The CHAIRMAN. All this reference to the value of the property has nothing to do with the tax matter, although it is interesting.

Mr. MARX. No; I do not think it has.

Mr. CHANDLER. The assertion was made, and I simply wanted to find out the amount of the stock.

The CHAIRMAN. That is all very interesting, but we have some other witnesses to hear.

Mr. MARX. Referring just for a moment to the expense involved, as I stated, this tax must be computed on each shipment. There are 28,000 agencies of the company throughout the country, and there are 751,000 shipments every day, and the amount of the tax was \$17,500,000 a year, with an average charge on express packages of \$1.48 and an average tax of 7.8 cents per shipment.

Mr. GREEN. Do you think this tax has reduced the amount of your business?

Mr. MARX. I do not know, but if the tax has any effect at all it would naturally work against the express business, because the freight tax is only 3 per cent, while the express tax is a little over 5 per cent. The parcel post is 4 per cent. Therefore the express tax is higher than that on the others, and if it has any effect at all on

that business it is bound to work against the express business, because it means a 5 per cent increase.

Mr. GARNER. If we repealed the express tax but did not repeal the 4 per cent tax on the parcel post, you would have an advantage, would you not?

Mr. MARX. I do not think so, because I believe there is enough difference in the rates upon parcels post and express and difference in the kind of service rendered and the present ease with which the parcels-post tax can be paid, so that it would offset any advantage of that kind. I really believe it would not make one iota of difference in that respect to the shipper who wants express service.

Mr. GARNER. Do you make your own rates?

Mr. MARX. We do not, unfortunately.

Mr. GARNER. Who makes your rates?

Mr. MARX. The Interstate Commerce Commission and the commissions in the various States.

Mr. CHANDLER. How much higher are your rates now than they were in 1917?

Mr. MARX. I know I am roughly correct when I say that there has been a little increase recently; but last year, when the Interstate Commerce Commission increased the freight rates they increased the express rates $12\frac{1}{2}$ per cent to offset the increased expense of doing business. We had asked for 25 per cent, but they only gave us $12\frac{1}{2}$. Then the Railroad Labor Board required us to increase the wages paid to our employees, and the Interstate Commerce Commission gave us an additional $13\frac{1}{2}$ per cent increase, the same as they allowed an increase to the railroads.

Mr. FREAR. That is 26 per cent altogether?

Mr. MARX. That is 26 per cent; yes.

Mr. CHANDLER. In one year—that is, last year?

Mr. MARX. Yes, sir. I am sorry the gentleman who asked me a question awhile ago has gone, because I wanted to answer the question he asked me. We got 26 per cent increase from the Interstate Commerce Commission, and $12\frac{1}{2}$ per cent of that increase went into effect on September 1, but the $13\frac{1}{2}$ per cent increase did not become effective until October 13, although the wage board required us to give back pay to May 1, so we had those back months to pay for.

Mr. CHANDLER. How much did you have before that?

Mr. MARX. I think during the time the company was under the control of the Director General he made an increase, which, I think, was 10 per cent; I am not sure about that amount.

Mr. CHANDLER. Have not the rates been increased over 100 per cent over what they were in 1915?

Mr. MARX. I do not think so; I am quite sure they have not been. In 1914 there was a very substantial reduction made by the Interstate Commerce Commission, but they found they had made too great a reduction, and in 1915 they gave an increase, which was to offset that reduction.

Mr. CHANDLER. And they have been increasing them nearly every year since, have they not?

Mr. MARX. No; there was that increase then, and as I say, I think probably the Director General of Railroads gave an increase while he had control, but notwithstanding that the business was conducted

at a loss because none of the increases has kept up with the increased expense.

Mr. CHANDLER. Your rates were made so high that people could not afford to ship by express; that is the trouble.

Mr. MARX. That may be true, and I think if you take this tax off it is going to help.

Mr. CHANDLER. You have not tried to decrease any rates?

Mr. MARX. No doubt the Interstate Commerce Commission, which is on the job every minute, will promptly reduce the rates—

Mr. CHANDLER (interposing). There is not any question but that they would reduce the rates if you made application to have them reduced.

Mr. MARX. Under present conditions, I do not believe anyone would expect us to make such an application.

Mr. CHANDLER. Nobody ever heard of any corporation making such an application.

Mr. MARX. Oh, yes.

The CHAIRMAN. If you have anything further to present to the committee, will you be kind enough to include it in a brief?

Mr. MARX. I have a brief here.

The CHAIRMAN. If you will hand it to the reporter, it will be inserted in the record.

BRIEF OF THE AMERICAN RAILWAY EXPRESS CO.

Section 500 of the revenue act of 1918 provides for the following taxes, among others:

Paragraph (a). On transportation by freight.

Paragraph (b). On transportation by express.

Paragraph (c). On transportation of persons.

Paragraph (d). On Pullman accommodations.

H. R. 16146, introduced by Mr. Longworth February 23, 1921, and referred to the Committee on Ways and Means, provided in section 22 thereof for the repeal of (a), (c), and (d), thus repealing the tax on the transportation of freight, passengers, and on Pullman accommodations, but leaving the tax upon express transportation. The tax on transportation by express should also be repealed for the following reasons:

The express business is essentially a business of small transactions, and this tax places a very heavy burden upon both the express company and the shipper because of the multitude of computations, etc., which must be made in order to compute it, pay it to the express company, and account for and pay it to the United States Government. The amount of tax involved is not substantial when compared with the other taxes mentioned and with the expense and trouble entailed upon the shipper and the company in collecting it. In the year ended November 30, 1920, the total taxes collected and paid to the Government for express transportation amounted to \$17,551,341.36. These collections covered 225,256,074 shipments. On the basis of these figures the tax averaged approximately 7.8 cents per shipment. In the same year the average express charges were \$1.48 per shipment, to which adding the average tax of 7.8 cents, made the total average collection \$1.558 on each shipment. The average charges on a shipment by freight carried by railroads it is believed is about \$20 per shipment.

From the \$1.48 received by the express company on each shipment the company must pay all of the expenses of handling that shipment; and while no segregation has been made of the expense involved in collecting the war tax it can readily be seen that this expense must be considerable when it is remembered that the agent must compute the tax on each shipment, enter it separately upon all of his records, report it separately to his division superior who must in turn report it to the accounting department where it is carried through the accounts of that department always separate from the transportation charge until it is finally reported and paid to the Government. In this process a number of different blank forms are used. There are 67 or more different

forms, each one of which carries one, two, or three columns, on which the war tax must be separately entered in addition to the other information contained thereon. While each shipment does not necessitate the use of 67 forms, nevertheless, a number of these forms are necessary for each shipment. The elimination of the tax would not only save the company considerable time and expense in computing, entering, accounting, and checking the war tax, etc., but a substantial saving could be made in the number of columns necessary on these forms.

A few forms are attached hereto as illustrations of the work, etc., which the war tax involves. Form 3001—Receipt to patrons for charges and amounts collected—shows the great amount of detail which is necessary and to which the war tax is additional. Waybill forms 7084 and others show similar information. See also waybill form 9, which accompanies every shipment.

Every record of an amount collected by the company from a patron involves at least two entries—one of the express charges paid and another of the war tax. Thus the war tax multiplies the number of entries and clerical work necessary on each shipment and increases the amount of paper necessarily used in compiling the forms. If the column for war tax could be omitted from all of the forms a great saving would be accomplished in the amount of paper used, as well as in the clerical work involved in recording the tax. This may be seen by reference to forms 5067, 54, 51, 51-A, 96-A, and 96-B. It will be noted that on some of these sheets the war tax must be entered several times.

Attention is further called to the fact that many of these forms are now as full as they can be of places for the information required. The company has been forced to omit a segregation of value charges from express transportation charges on some of its forms, see 96-B because of the lack of space in which to add any additional information. The omission of this information was due largely to the necessity of having to provide on the forms the space on which the war tax could be shown.

The express company has approximately 28,000 agencies at which the work of assessing, collecting, and reporting these war-revenue taxes must be done, and the average shipments per day are approximately 751,000, or 18,771,340 shipments monthly; on all of which this tax must be collected, recorded, and reported. That is to say, the express company's employees have to calculate and collect these taxes, enter them on the waybills and their reports, and then the company has the additional expense of checking the taxes assessed and transmitting them to the central accounting offices for consolidation, report, and payment to the Government. The average taxes collected and paid to the Government are \$1,462,611.78 per month on the 18,771,340 shipments which the company handles each month.

Expedition is the prime essential of express service and prompt movement is necessary to satisfactorily and efficiently conduct the business. The computation and entry of the war tax in addition to the transportation charges necessarily slows up the movement of the business, and while in some cases this delay is negligible, in many cases considerable delay may result, as, for instance, when there may be disputes as to the correct amount of tax or when errors must be corrected, etc. On the whole, the attention which must be given to the proper collection, handling, and reporting of the war tax is just one added straw to the details already too numerous in the handling of the business.

The tax amounts to 5 per cent of the transportation charge, and if the tax is taken off of freight shipments and allowed to remain on express it will undoubtedly have a material effect in diverting to freight shipments which would otherwise move by express, thus disturbing the relationship now existing between express and freight business and express and freight rates, on the basis of which such rates have been fixed, at least in part.

Express and freight rates have been raised recently, and objection is now being made that they are too high. Therefore it is of no little importance to shippers to have this tax eliminated, because it is an additional charge upon the transportation of express over and above the charge for the express company's service.

The express company is striving in every possible way to reduce its expenses, and, of course, upon its success in that endeavor largely depends the ability to reduce express rates. One of the principal items of expense in transacting the express business is that of accounting and the necessary work in connection therewith, including the collection, tabulation, and segregation of this tax, and accounting for it and paying it to the Government.

When it is remembered that shippers not only have to pay this tax but also have to carry it through their accounts it seems quite probable that the burden and expense on the shipper and the express company combined of paying, collecting, and transmitting the tax to the Government is far out of proportion to the amount accruing to the Government. We respectfully submit that the subdivision of the law imposing this tax should be repealed.

H. S. MARX, *Assistant General Counsel.*

(The forms referred to were filed with the committee, but are omitted in printing.)

INSURANCE TAX.

MUTUAL INSURANCE COMPANIES.

HERMAN L. EKERN, MADISON, WIS., REPRESENTING MUTUAL INSURANCE COMPANIES.

Mr. EKERN. Mr. Chairman, I am here for the mutual insurance companies. I represent the Federation of Mutual Fire Insurance Companies, numbering some 75 of the large fire-insurance companies like the Millers' National, the Grain Dealers' Companies, and the Hardware Dealers' Companies. I also represent the National Association of Mutual Casualty Companies, including 27 mutual casualty companies throughout the country, and the National Association of Automotive Mutual Insurance Companies, which has about 40 companies, and the National Association of Mutual Companies, which includes the farm companies throughout the United States. In the last-named association we have some 614 companies. There is a total of 2,200 of these mutual companies throughout the country.

The CHAIRMAN. You represent the entire number?

Mr. EKERN. I represent these four associations, which include about 800 in their total number. There is more or less cooperation with the others, but they are not members.

The CHAIRMAN. What percentage of those is represented in the request you present to this committee?

Mr. EKERN. About one-third. The ones who are not members of the association, I might say, are the small companies, and they are very largely exempt from any tax.

Our associations have all asked Congress to repeal the tax on insurance premiums. They put this request as a general request for the repeal of that tax.

Mr. YOUNG. Stock companies as well as mutual companies?

Mr. EKERN. Yes; also as to stock companies. They believe that a tax on insurance premiums is a very unfortunate and uneconomical tax. In the first place, the report of the Commissioner of Internal Revenue shows that it costs about 50 cents per \$100 to collect internal-revenue taxes by the Government. Of course, that is largely due to the low cost of collecting income and excess-profits taxes.

Mr. YOUNG. You mean that represents the insurance tax alone?

Mr. EKERN. No; all taxes. The cost to the Government is 50 cents for each \$100 that goes into the Treasury of the Federal Government.

Now, then, as to this insurance tax, all there is to it is that the Government makes the insurance companies tax collectors because,

of course, everybody understands that all insurance is mutual and that the cost of paying the losses and the expense of conducting the business is taken from what the policyholders put into the pot and distributed in that way, very much like the business of a bank. The stock companies doing the great mass of the business have an average expense of about 40 cents for each dollar collected from the policyholders. That is true in the case of the fire, casualty, and marine insurance companies, but it is not true in the case of life insurance companies, because there the ratio is different. That means that in collecting the \$13,000,000 the Government gets out of the fire, marine, and casualty insurance companies the policyholder is compelled to pay considerably over \$20,000,000. Where each dollar collected produces but 60 cents for the Government it necessitates collecting \$167 from the policyholders to put \$100 into the Treasury. In other words, \$67 is the expense for putting \$100 into the Federal Treasury, as against an expense of 50 cents by the Government in collecting the same \$100 direct from the taxpayer.

Mr. YOUNG. What do you put into that expense?

Mr. EKERN. A large part of it goes for agents' commissions. The agent's commission to the local agent averages throughout the country 21 per cent.

Mr. YOUNG. You do not pay him any commission on the tax?

Mr. EKERN. Certainly you do. He gets a commission on everything he collects, and the supervision of that agent adds about 5 per cent more, and the home office expense and other expenses bring the total up to about 40 per cent.

Mr. YOUNG. Are you sure a commission is paid by insurance companies to the local agent upon the portion of the premium that goes for tax?

Mr. EKERN. Absolutely. A commission is paid by these companies for all that is collected.

The CHAIRMAN. Are you not mistaken there? Do you pay that much on the total premium during the life of the policy or simply on the first collection?

Mr. EKERN. In the case of life insurance you pay on the first collection, but in the case of fire, casualty, and marine insurance you pay on every dollar of premium collected by the agent. The agent gets his commission on every dollar of fire, marine, and casualty insurance except the business written by some of the mutual companies direct to the policyholder. Of course that must be excluded from this, but that is a comparatively small proportion of the total.

The CHAIRMAN. In the case of life insurance, what portion of the premium paid by the policyholder is consumed by the insurance company in profit and expenses?

Mr. EKERN. In life insurance?

The CHAIRMAN. Yes.

Mr. EKERN. I was not speaking of life insurance; I do not represent any life-insurance companies in this connection.

The CHAIRMAN. I thought you spoke of them.

Mr. EKERN. It is difficult to put it in percentages. I am only speaking of other kinds of insurance than life insurance. Of course, this kind of a tax was only put on in case of the emergency of war, and it has always been repealed after a war.

I want to call your attention to another thing. Every business man recognizes to-day having insurance on property against casualty is an act of prudence and necessity, and no matter how apparently small the tax is, the inevitable result of a tax on premiums is to discourage the carrying of insurance; it can not be otherwise.

The CHAIRMAN. Any tax on any business is a discouragement to the business, is it not?

Mr. EKERN. I think so, Mr. Chairman; but still taxes are an absolute necessity. You have to raise money; Congress has to raise money, and that is not an answer. But in this particular case the economic effect is very bad. Suppose it were proposed to levy a tax of even 1 per cent on all the deposits of the banks in this country? What would happen?

The CHAIRMAN. That would not be on business.

Mr. EKERN. You would absolutely reject it. I am glad to have your suggestion; you answer the argument—

The CHAIRMAN. That would not be a tax on business.

Mr. EKERN. No; and neither is a tax on insurance a tax on business, because with the exception of the service—the insurance companies are keeping these accounts, and are figuring out what the rates shall be and are paying the losses—that is pure service, and with the exception of that service the work of the insurance company is exactly the same as that of a bank. When you pay money into the insurance company it is your property, even in a stock company. You can have your policy canceled and get back your premium for the time the policy has to run.

The CHAIRMAN. When you pay your money into an insurance company a certain portion of it goes to the insurance company, but when you deposit your money in a bank, none of that money goes to the bank.

Mr. EKERN. May I differ with you on that? In a stock company a certain portion goes to the insurance company.

The CHAIRMAN. In any company?

Mr. EKERN. In the stock company, the profit, which is a very small portion, because it is only when—

The CHAIRMAN (interposing). The expenses of conducting the business are charged up to the money paid in premiums.

Mr. EKERN. Partly by the investment income of the companies.

Mr. YOUNG. Do you take out the agent's commission?

Mr. EKERN. It has to be taken out of the premiums, because there is no other source out of which to pay that. The property of the policyholder is used from time to time in paying the losses and in that sense it is a deposit. The Treasury Department has held in the case of mutual companies that every dollar that is collected is a deposit and it belongs to the policyholder.

The CHAIRMAN. Then, when you pay the cost of running the business that is taken out?

Mr. EKERN. No; in the mutual companies—

The CHAIRMAN. How does a mutual company do business without paying out money?

Mr. EKERN. They take it out as they go along.

The CHAIRMAN. That is what I say; it pays out of the money paid in by the policyholders.

Mr. EKERN. Certainly it does; just the same as it is necessary to conduct any business and pay the expenses of that business.

The CHAIRMAN. A bank does not take a part of your deposit to do business with.

Mr. EKERN. The only difference is this: That a bank has a proportionately larger investment income, and the bank pays its entire expenses of operation from the investment income. An insurance company may have a large investment income, and we have insurance companies that pay their expenses of operation and all their losses from their investment income, and have money left. So the analogy holds good to a degree.

The thing that is objected to in connection with the premium tax by the insurance companies is the effect in discouraging prudent men from carrying insurance. And the big object of an insurance company, contrary to popular opinion, is not only to pay losses, but to prevent losses.

The CHAIRMAN. In short, you want this tax on insurance premiums repealed?

Mr. EKERN. Yes. The big object of an insurance company is to encourage care in the prevention of losses, the prevention of fires and accidents. That is the big work being done by the casualty and fire insurance companies to-day, and the more you discourage people from taking insurance the more you discourage them from participating in that public object, and the insurance business is a great influence to that end.

I want to call your attention to this—that there has been a bill recommended favorably in both Houses for the encouragement of marine insurance. That bill proposes, so far as marine insurance is concerned, to wipe out the premium tax in the District of Columbia. In that connection it would be eminently proper, of course, that the fire premium tax should be wiped out. What we are asking is that this committee wipe out the premium tax for all companies.

The CHAIRMAN. Have you any suggestion to make to the committee as to where we would get a like amount of money?

Mr. EKERN. The total amount of this tax is about one three-hundredths part of the amount collected from income taxes.

The CHAIRMAN. But if we do away with the other 99.7 per cent, will you tell us where we will get an equal amount of money to cover the amount collected from the tax you want us to repeal?

Mr. EKERN. As a practical business man, if you were paying out \$66 to collect \$100, and you could collect the same \$100 for 20 cents—

The CHAIRMAN (interposing). Do you say it costs that much money to collect the internal revenue from insurance companies?

Mr. EKERN. It costs that much for the insurance companies to collect it from the policyholders.

Mr. YOUNG. That surely must be a generalization.

Mr. EKERN. Anything of that kind must be general, of course.

Mr. YOUNG. The added cost of getting that tax to the Government surely can not be very much, because you have all of your machinery to handle the business, to issue policies, and your rent and postage, and a great many other items would not be increased at all.

Mr. EKERN. The agent gets that much more to start with.

Mr. YOUNG. I wish you would give us some proof of that, because it looks to me so unreasonable to say that the agent will get a commission on that.

Mr. EKERN. I can demonstrate that absolutely.

Mr. YOUNG. I wish you would.

Mr. EKERN. Say you buy fire insurance; you pay \$100 as a premium; that is all you pay; you do not pay \$101, with an additional 1 per cent for the tax. You pay \$100 for your premium.

Mr. YOUNG. You mean the man who is the insured, who asks for the policy?

Mr. EKERN. He pays \$100 for his premium.

Mr. YOUNG. What part of that is the tax to the Government?

Mr. EKERN. The agent who writes that policy gets, on the average, \$21, and that leaves \$79; then you pay various other items out of it, and some of the other items are on a percentage basis. That means that this agent has collected that much more than he would have done if it had not been necessary to pay the Government \$1 out of that premium.

Mr. GREEN. Would there be any difficulty in including as a part of the payment for that policy a certain amount for the tax?

Mr. CHANDLER. In figuring the agent's premium on that, would not your agent's premium just have been 2.1 cents in that case?

Mr. EKERN. In that case—

Mr. CHANDLER (interposing). I wish you would answer that question. Suppose he collects \$1 for the Government; you say the average per cent would be 21 per cent?

Mr. EKERN. Yes.

Mr. CHANDLER. How much would the agent get out of the dollar?

Mr. EKERN. He gets 21 cents.

Mr. CHANDLER. Where do you get this other amount?

Mr. EKERN. The other expenses. Mind you, if the Government ultimately gets 60 cents, or if the company only has 60 cents out of that, then 40 cents goes for other purposes.

Mr. CHANDLER. What other purposes does it go for?

Mr. EKERN. The agent's commission.

Mr. CHANDLER. That is already taken care of.

Mr. EKERN. The agent's commission, 21, and the overhead for supervision of agents is about 5 per cent.

Mr. GREEN. That overhead is the same, even if the tax is not there?

Mr. EKERN. Perhaps it is; perhaps some of the other items would be just the same.

Mr. CHANDLER. Are not the other items the same? How much additional cost is it to pay that to the Government? It is just the same as making out returns, is it not?

Mr. EKERN. That raises a very interesting question. Unfortunately, the law provides that the tax shall be 1 cent on each dollar or fractional part of the premium collected, and the Treasury Department holds, correctly I think, that the tax has to be returned on each policy, and the collection has to be made on each policy, and the accounting expense in handling that is a very considerable amount.

I think the suggestion made by one member of the committee that you fix it so that the tax may be added separately to the premium is a very excellent one if it is necessary to collect that tax, because that will result in a great saving to the people of this country.

The CHAIRMAN. Let me see if I understand you. You mean to put a provision in there that the man purchasing the policy pay it to the agent, and the agent pay it to the company, and the company pay it to the Government?

Mr. EKERN. Exactly.

The CHAIRMAN. In other words, you want to shift it on to the other fellow?

Mr. EKERN. The idea is this—

Mr. GREEN (interposing). That would be merely the reduction of the expense.

Mr. EKERN. If you do that; yes, sir.

The CHAIRMAN. And collect it from the purchaser of the policy instead of the insurance company?

Mr. GREEN. The policyholder always pays it, anyway.

The CHAIRMAN. He says the company pays it.

Mr. EKERN. The policyholder pays it; but it is uneconomical; it is wrong, and it discourages insurance.

Mr. CHANDLER. Would the policyholder get it any cheaper? Is not the rate fixed in every State in the Union, and there has been no change in the rate in the last two or three years, has there?

Mr. EKERN. I beg your pardon; the rate upon the specific allowances for the tax is added to the rates where the rates are regulated.

Mr. YOUNG. How is the statement rendered to a man who buys insurance now?

Mr. EKERN. That is an actuarial matter handled by the rating bureau. In workmen's compensation insurance—

Mr. YOUNG (interposing). I do not mean any technical statement, but when A receives a bill through the mails what are the items given on that statement?

Mr. EKERN. There are no items given, just the total.

Mr. YOUNG. They do not state the tax separately?

Mr. EKERN. No; the insured does not know anything about it until he is told about it.

Mr. HOUGHTON. Then how does he get discouraged?

Mr. EKERN. When this tax was put on back in 1917, at 1 per cent, the stock insurance companies added a surcharge of 10 cents to their rates for fire insurance, and the people were asked to pay it, and did pay it, in nearly all States. There were a few States where they did not pay it because the insurance commissioners of those States had the power to regulate the rates, and they refused to allow them to pay it. The superintendent of insurance in the State of New York said in his official report that that overcharge in one year in the city of New York alone was over \$3,000,000.

Mr. CHANDLER. In other words, the public was just gouged that much.

Mr. EKERN. I do not think I would call it that.

Mr. CHANDLER. What else would you call it?

Mr. EKERN. I do not want to be unfair to our stock friends. They are entitled to be treated fairly. They had other expenses that were increased, and they did not anticipate the rapid expansion of the business through increase of insurance. After the insurance commissioners of this country in annual convention had demanded that on a certain date the surcharge tax should be removed, it was discon-

tinued by those companies. What we are asking is that this shall be repealed as to all companies.

Mr. YOUNG. I think you have convinced us that there must be some change in the law, but I do not know just what is necessary.

Mr. FREAR. Will you insert in the record a brief statement of what is wanted, and also insert in the record any alternative proposition you may have to suggest?

Mr. EKERN. I will be glad to do that.

BEVERAGES TAX.

CARBONATED BEVERAGES.

JUNIOR OWENS, SECRETARY AMERICAN BOTTLERS OF CARBONATED BEVERAGES, WASHINGTON, D. C.

Mr. OWENS. Gentlemen, I know that your time is limited, and I have prepared here a statement so that I will not take up a great deal of your time. I merely want to touch on one or two points in regard to some criticisms or questions which have been asked me by certain Members of Congress with reference to the carbonated beverage industry. I represent the manufacturers of carbonated beverages in closed containers, in other words, bottled soda water, as taxed under section 628(a) of the revenue act.

Mr. FREAR. It has a different rate from soft drinks generally?

Mr. OWENS. That is 10 per cent. That is the sales tax, the manufacturer's tax on sales.

Mr. LONGWORTH. Are you going to ask for the repeal of section 628, regardless of whether section 630 is repealed or not? Is it contingent on the repeal of section 630?

Mr. OWENS. Regardless; absolutely.

Mr. COLLIER. You are not asking that it be put on the same basis as that sold at the soda fountain?

Mr. OWENS. We ask that this tax on us now be repealed, regardless of what happens to the soda tax. I think, probably, you gentlemen are referring to the fact that we have had considerable propaganda relative to the repeal of this tax and have had considerable about the proposed repeal of the tax at the soda fountain. We had reason to believe that there was a consensus of opinion among the Members of Congress that the tax should be repealed, the consumption tax. Many of them have said that they believed so. Further than that, this committee in 1919 passed a bill through the committee, which went over to the House and was finally, I think, left in the Senate Finance Committee. Nearly every bill that has been introduced in the last two years has carried the repeal of section 630.

Mr. COLLIER. Would the bottlers contend that to leave the tax on there and take it off at the fountain is an unjust discrimination against them?

Mr. OWENS. Yes; absolutely we contend that.

Mr. COLLIER. That is their contention and that is the propaganda you are referring to.

Mr. OWENS. Yes; that this should be repealed. Of course, it would be fatal to us and would drive us absolutely out of business; no question about that at all, because there is no difference between

the bottle of soda water manufactured in the plant and put in a closed container for future consumption—there is no difference between that and that which is opened for immediate consumption at the fountain.

Mr. COLLIER. I have always thought there was justice in your contention.

Mr. LONGWORTH. That is the reason I asked the question, to find out if it was separate and apart.

Mr. GARNER. If I understand you, all your efforts here and in the past have been to use that as a kind of leverage to help you in getting this repealed.

Mr. OWENS. I beg your pardon. We have thought that it might go through and if it did go through it would practically drive 14,000 manufacturers in the United States out of business.

Mr. GARNER. That was the reason you gave for the repeal of this tax, that if they repealed that fountain tax your tax should be repealed.

Mr. OWENS. Absolutely; a very good reason. There is no question about that. But whether or not it is repealed, section 630 is entirely separate from section 628a as applied to us. Section 628 applies to all types of beverages, carbonated beverages and beverages sold and offered as cereal beverages. I am speaking merely of carbonated beverages, not those beverages sold for 10 cents to 15 cents and over. We have nothing in common with them, though, as a matter of fact, they are carbonated beverages.

At the present time we all know that it has been customary for years that the carbonated beverage is a 5-cent American institution. There is no question about that. It is a nickel proposition. The carbonated beverage industry is one of small profits. Volume is what means the profit in the business. And despite the fact that for the past two years we have been endeavoring to teach the people to pay more than 5 cents for carbonated beverages, they still have refused to use them with the same degree of popularity as when the price was a nickel, and, consequently, that has cut the production volume of our business to a point where a great many of them are nearly in the hands of receivers. I noticed yesterday where the Internal Revenue Department talked of taking them over, because they could not pay the tax. If they tried to run them, they will do worse than that.

Mr. CRISP. There are a great many people throughout all sections of the country that are bottlers. They buy these sirups.

Mr. OWENS. Absolutely.

Mr. CRISP. And they use carbonated waters and fix it by the case and sell it by the case to country merchants, who retail it just as these drinks are sold at fountains except that they sell it from the bottle instead of the fountain. What is the profit to these bottlers on a case of 24 bottles to the case that they sell to the retail merchants who retail it out a bottle at a time?

Mr. OWENS. Under existing current conditions—this does not apply prior to the time of the receding in prices—prices have receded in the bottling industry with the fall in the price of sugar and other things, and at the present time—I have the figures here; I have gotten them. Of course, you understand that in 14,000 plants the cost of production depends a great deal on the conduct of the

plant, equipment, etc. But as the average, under prevailing conditions, it costs the bottler 72.5 cents to manufacture 24 small bottles of carbonated beverage.

Mr. CRISP. What does he sell that for to these retailers? Bottlers in my country have wagons and travel over the country delivering those cases to the country merchants. What does the country merchant pay these bottlers for one of these cases of goods that you say costs him 72 cents?

Mr. OWENS. At the present time he is paying about 90 to 95 cents per case, as an average, although it varies a little in localities.

Mr. COLLIER. He returns the bottles?

Mr. OWENS. Yes; I should say so. That is a big expense. He couldn't sell the bottles at the price of the goods.

Mr. COLLIER. He is responsible for any breakage?

Mr. OWENS. He is responsible for all breakage. We have a cost of 72.5 cents. The highest price that the bottler makes for his goods when they retail for a nickel is 85 cents; that is the maximum, leaving the retailer for his ice and his care of the product in handling 35 cents on the case. That has been more or less standard, 80 and 85 cents; 85 cents is the maximum.

Mr. CRISP. Bottlers in my district claim that they can not do business and a great many of them have gone out of business, claiming that this tax destroyed any opportunity that they had of making any profit out of the business.

Mr. OWENS. Probably your community is unique in the fact that they can not raise the price. There are many communities where the volume has been cut out, and the overhead adds to it, where people would not pay it. They bought it so long for a nickel that they would not go up. Now, of course, with this 72.5 cents cost of production per case, taking that as a basis, there is the 7½ war tax in addition to that.

Mr. CRISP. May I ask you one other question?

Mr. OWENS. Yes, sir.

Mr. CRISP. You have answered my previous question, stating that the cost to the bottler in manufacturing this case was 72.5 cents.

Mr. OWENS. Absolutely.

Mr. CRISP. And they retail it to the merchants around 96 cents.

Mr. OWENS. Ninety to 95 cents.

Mr. CRISP. Ninety to 95 cents. Do you include in the cost price of 72 cents the cost of running a truck and the man in delivering it around to the customers?

Mr. OWENS. Yes, sir. That is the cost of production including everything.

Mr. CRISP. That is the delivered price?

Mr. OWENS. Yes, sir; that is the delivered price.

Mr. LONGWORTH. If you add to your cost of 72 cents in round numbers the amount of your tax, which is 7.2 cents, in round numbers it is 80 cents and after paying tax you would get 90 and 95 cents on a net cost of 80 cents.

Mr. OWENS. Quite true.

Mr. LONGWORTH. After you have added your tax.

Mr. OWENS. After you have added your tax.

Mr. LONGWORTH. Is that a pretty fair profit?

Mr. OWENS. No; it is not an excessive profit.

Mr. LONGWORTH. No; a fair profit.

Mr. OWENS. Quite true; it is.

Mr. LONGWORTH. It is 20 per cent.

Mr. OWENS. Yes.

Mr. LONGWORTH. You are making 20 per cent net, including the war tax.

Mr. OWENS. With the war tax included.

Mr. LONGWORTH. With the war tax included.

Mr. OWENS. But you understand my point?

Mr. GARNER. That depends on whether you are selling it for 90 or 95 cents?

Mr. OWENS. Yes.

Mr. GARNER. Some sell for 90 cents and some sell for 95 cents. If you sold it at 90 cents there would be only about 12 per cent.

Mr. OWENS. But you understand when it is sold for that price it can not be retailed for a nickel, consequently you are cutting into your volume. The beverage business is one of very small profits.

Mr. COLLIER. How many bottles in a case?

Mr. OWENS. Twenty-four.

Mr. TIMBERLAKE. What is your retail price?

Mr. OWENS. It varies from 6 to 7 cents to 10 to 15 cents.

Mr. LONGWORTH. They charge 7 and 8 cents over in the Capitol.

Mr. OWENS. Quite true; but you must understand, Mr. Longworth, that we do not contend that the price should be 7 cents or 8 cents, with the amount of this war tax at all. I must say that after the price has gone over a nickel it is impossible for the manufacturers to control it. The retailer is trying to get anything he can get out of the people who do business with him. That is the reason for the variation in price by various merchants. The price of the product is practically the same in every community because competition causes the manufacturers to keep their prices on a level. But the retailer does not. Our point is this: The question is if we can get this tax off. It was not before. It used to cost us a great deal more than 72.5 cents to manufacture when sugar was up to 22 and 26 cents, and, of course, we got more money for the goods. But to-day the element which enters into this price is that sugar has gone back to 5 cents and it forces us to manufacture it and the retailer to sell it, because it means business, and it means if you eliminate the 10 per cent tax it would make the profit whereby the goods could be sold at 85 cents and retail at a nickel universally at the present time, but it could not have been done under previous prices.

Mr. COLLIER. Your contention is that this tax has cut down the volume of your business?

Mr. OWENS. Absolutely. I do not say that the tax was the only element in it. Some time ago the prewar price, when the prewar price was 22 to 24 cents, in Detroit some of them paid as high as 36 cents a pound for sugar. Of course, the price had to come down.

Mr. GARNER. That was before Mr. Fordney got to work on this.

Mr. OWENS. I might say also that there is nothing in the idea which seems to have gone out that the manufacturers of carbonated beverages are profiteers. There was one other point I wanted to bring out here, with respect to our business. There are a lot of people who do think that the beverage business does not take much. I have heard it said there is nothing to that stuff. They just use a

little sugar and water, sometimes saccharin, and, therefore, it does not amount to anything. I have submitted in this brief the cost sheets, and in this cost sheet of one manufacturer there are 17 main items, taking up items under the main heading which go into the manufacture of carbonated beverages. The plants in the beverage business, some of them, run into the hundreds of thousands of dollars, quite a percentage of these 14,000. I must tell you that I believe the average bottling plant in the United States does not run \$5,000; when I speak of the 14,000, they are located in every village, every hamlet in the Union, practically. The theory of this tax, originally, as I understand it, was that it was to be absorbed. But a survey was made in 1918, I believe it was, of the industry which showed that the net return on the investment of that year of the bottling industry was 8.6 per cent of gross sales.

Mr. GARNER. If Congress should repeal this tax, you would have no objection to paying an income tax?

Mr. OWENS. Not a bit. Let me make ourselves plain. We have no objection to the tax which is paid, but we are against an excessive tax. We have no reason to believe that we should pay any more tax on our business or any extra tax for the purpose of doing a legitimate business, because, as has been stated, it is a food industry. The Bureau of Chemistry so styled it and so rates it, and we do protest and protest vigorously. We realize that \$4,000,000,000 has to be raised and know it is to be paid, but we do not feel that in our business or any other business, an excise tax should be paid by ourselves, or by the merchant, or the manufacturer of any other product.

Mr. CRISP. If it is a corporation doing this business under the existing law, if you made a profit you would not only have to pay an excise tax but pay a normal profits tax, and if you made in excess of 8 per cent, an excess profits tax in addition.

Mr. OWENS. We have not had to pay anything of that at all. It has not been the bottling industry which has attempted to defraud the excess profits tax at all in any way, shape, or manner.

Mr. TILSON. Are these plants modern affairs, with bottling and capping machinery?

Mr. OWENS. Yes. One bottling unit to-day—I am speaking of a large unit, a 40 filling machine that bottles 40 bottles at a time—the installation of building that unit costs something like \$50,000. It takes the bottles up at one end of the room and when it goes through the machine it is taken through seven different kinds of caustic solution to sterilize it and at the other end they are capped and labeled, and a man stands there to load them out. That is going through the room. That is in the largest plants, not in the other types. The bottling industry to-day is not handled at any time in the bottling of carbonated beverages by human hands at all any more. It is one of the cleanest industries that I know of.

Mr. COLLIER. How many times did you say they were washed?

Mr. OWENS. Seven different rinsings in caustic solution in the largest plants. It goes through hot water, too. We have the figures in this statement, and, as I say, I do not want to take your time, as I realize you are busy. I do vigorously plead that you give us some consideration, because I feel there is no reason in the world why these 14,000 plants should be jeopardized any further.

BRIEF OF JUNIOR OWENS, SECRETARY AMERICAN BOTTLERS OF CARBONATED BEVERAGES, WASHINGTON, D. C.

The manufacturers of carbonated beverages believe they have a just grievance over the present 10 per cent excise tax they are now paying as provided by section 628a of the revenue act of 1918. They wish to protest vigorously against this tax and to show the hardship it has worked upon the 14,000 bottling firms in America, scattered through every State in the Union. In speaking of the 14,000 bottling firms it should be clear to the committee that reference is made only to those concerns which are engaged in the business of bottling soda water or so-called soft drinks as specified under section 628a of the revenue act. It is pointed out that this industry includes only a part of those firms which are taxed under section 628a; only those assessed under the following provision of that section:

"And upon all unfermented grape juice, ginger ale, root beer, sarsaparilla, pop, artificial mineral waters (carbonated or not carbonated), other carbonated waters or beverages, and other soft drinks, sold by the manufacturer, producer, or importer, in bottles or other closed containers, a tax equivalent to 10 per centum of the price for which so sold."

This same section also provides for a tax of 15 per cent on all beverages derived wholly or in part from cereals or substitutes therefor and containing less than one-half of 1 per cent of alcohol. The Government has seen fit to differentiate between these two types of manufactures and the cereal beverage manufacturers are not referred to in this statement.

The industry asks for the elimination in the new revenue bill of the present excise or specific sales tax on soft drinks. While this statement is not for the purpose of discussing general taxation, the bottlers of this country are of the conviction that the present excise taxes which were levied on certain businesses as purely a war measure should be eliminated. The bottlers of carbonated beverages of America expect to pay their legitimate proportion of the taxes which are necessary for the administration of the Government for the payment of national obligations. The industry does protest, however, against paying those taxes which are normally assessed on all business and then in addition paying a special tax of 10 per cent on gross sales as it is at the present time. It believes that then whatever deficit, necessary to take care of the annual expenses, remains should be levied through a general turn-over sales tax, so that then this extra burden would be distributed equitably and justly. It feels the percentage levied under such a measure should depend entirely upon the amount of revenue which must necessarily be raised in addition to that secured from the other sources of revenue.

The carbonated beverage industry is rather unique in that a bottle of soda water is essentially a 5 cent American institution. It has been customary to sell these beverages at 5 cents a bottle so long that even though for a year and a half the industry has been attempting to educate the public to a higher-priced drink, through necessity, it has been unable to do so. The public has refused to extend the same popularity to bottled carbonated beverages at the advanced price that they did when they were sold for a nickel a bottle.

It has been said that this advance was caused by necessity. This does not mean necessarily on account of the sales tax alone, but on account of the increased price of ingredients and labor, and in general of increased prices in every phase of the manufacture of these drinks. Through these advances the volume of production of the 14,000 bottling plants was cut so far that there are few manufacturers of carbonated beverages in America to-day who are on a firm financial basis.

The industry wishes to refute the idea which we have found in the minds of a number of Members of Congress, and that is that the bottling industry is one which is reaping huge profits and is an industry which might be styled big business. During 1920 the average daily gross sales of the bottlers in the United States was less than \$30 each. So you can see that we are not big business and that we must have relief if the industry is not to be ruined. Certainly it is apparent that with an average daily gross sales of less than \$30 the manufacturers of carbonated beverages did not have volume, which is necessary for the success of the business. Soda water is sold by the case, there being two dozen bottles to the case, these bottles retailing at 5 cents each. Under the 5-cent retail price the maximum that it is possible for the manufacturer to get for his goods from the retailer is 85 cents per case. With sirup, which is the fundamental base of soft drinks, at \$1 to \$1.10 per gallon, our survey shows that the very minimum at which these drinks can be manufactured is 72.5 cents per case. That is under present conditions, and it is pointed out that most of the advances which during the past two years caused bottlers to increase their sales price have now dropped back to nearly normal, and it is only this 10 per cent excise tax which is preventing them from bringing their drinks back to the nickel price.

The following is the cost schedule in manufacturing one two-dozen case of 8-ounce bottles of carbonated beverages under present conditions (sirup at \$1 to \$1.10):

Sirup	\$0.25	Overhead.....	\$0.10
Crowns.....	.06	Delivery expense.....	.15
Labor.....	.055		
Gas and water.....	.025		.725
Power.....	.005	Tax.....	.07 $\frac{1}{2}$
Bottle breakage.....	.06		
Rent.....	.02	Total.....	.80 +

At 72.5 cents a case for the manufacture, and a war tax of 7 $\frac{1}{2}$ cents a case, our total cost amounts to over 80 cents on a sales price of 85 cents. It is readily evident that with a cost to-day of over 80 cents, that securing the maximum sales price of 85 cents, this gives the manufacturer a profit of less than 5 cents per case, and they can not do business on that margin. Were this excise tax to be repealed they would then be making an additional 7 $\frac{1}{2}$ cents per case, or more than 12 $\frac{1}{2}$ cents, and they would then be on a sound and economic manufacturing basis. So that under present conditions the only thing which prevents them returning to a 5-cent price and back to the point where they can secure volume and advance their business is this tax as levied by section 628a.

It is sometimes said that it is simple to manufacture soft drinks for all that they contain is a little sugar, water, and coloring. It would seem from such a statement that there is very little to take into account in making up a cost sheet for our business. As an idea, a list of the items which make up the cost sheet of one manufacturer is submitted:

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Raw articles, which include extract, sugar, acids, etc. 2. Carbonic gas. 3. Bottles. <ol style="list-style-type: none"> (a) Cost. (b) Freight. (c) Handling. (d) Breakage. 4. Crowns. 5. Labels. 6. Boxes. 7. Labor, which includes foremanship, washing, filling, labeling, packing, and sirup making. | <ol style="list-style-type: none"> 8. Power and heat. <ol style="list-style-type: none"> (a) Sirup. (b) Washing. (c) Filling. (d) Conveying. (e) Refrigeration. 9. Soaking powder. 10. Rent. 11. Interest. 12. Depreciation. 13. Shipping expenses and loading. 14. Delivery. 15. Office. 16. Selling. 17. Advertising. |
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It will be noted from this there are many elements which enter into the cost of manufacture of bottled beverages.

It has been stated previously this tax was the reason for the bottlers not being able to get back to a normal price where their goods will move on an economically sound basis. A survey made early in 1919 showed that during 1918 the average net profits to manufacturers of carbonated beverages in this country was 8.6 per cent on the gross sales. It can be seen readily from this that it became necessary for the manufacturers to pass the tax on to the consumer, as they could not absorb a 10 per cent levy on gross sales. This is exactly what happened when this tax was levied. Bottled beverages which formerly maintained a standard price of 5 cents were immediately increased in price to the consumer until the article sold as high as 10 cents. It is not contended this raise was all on account of the tax; this was occasioned by the fact that the price was such it became necessary for the retailer to raise his price above a nickel, and when this was done there were many retailers who figured they might as well raise it 2 cents as 1 cent, after they got away from the 5-cent price. Consequently, by forcing the price of bottled carbonated beverages above the 5-cent level the public was gouged out of thousands of dollars which the bottler did not receive and which the Government did not receive. This, of course, had the inevitable effect of curtailing the volume of business, and consequently of decreasing the net profits of the bottler and of decreasing their ability to pay income and excess-profits taxes, thus reducing the revenue of the Government in those directions.

Within the past 30 days great public demonstrations and parades have been held in the principal cities of this country, when thousands of citizens gathered together in public protest against the price of carbonated beverages and demanding that they be returned to the 5-cent level. It is just as much the desire of the manufacturers to put on the market a 5-cent product as it is the wish of the public to purchase beverages

at 5 cents. There is only one reason at present that carbonated beverages are not being retailed for 5 cents, and that is on account of the present special sales tax which is being paid by the manufacturers. The elimination of this tax would permit the manufacturer to sell his product to the retailer at a price which would enable the retailer to market these products to the public at 5 cents and still make a legitimate profit. If the tax is removed, beverages will return to a nickel, for the manufacturer, whose success lies in a 5-cent product, will force the price down to its popular level.

Within the last four months a survey of the trade throughout the United States has been made, which shows that in 1920 the average net return on invested capital in the bottling industry was 4.89 per cent. Certainly it is evident that no industry can survive on a return of this kind.

As an illustration, figures on one of the better known plants in the country which is selling goods in every State east of the Mississippi are given. In the years 1919 and 1920 the paid-in and borrowed capital of this company totaled \$140,000. During 1919 the profits upon their business, including excise tax, was \$35,265.40. The amount of excise tax paid the Government was \$24,869.95, leaving net profits, inclusive of the income tax, of \$10,395.45. Their income tax was \$821.83, leaving a net profit of \$9,573.62 on a total investment of \$140,000. This shows the gross returns on their capital amounted to 25.2 per cent, that the excise tax was about 17.8 per cent, and that the net profits after deducting income tax amounted to about 6.8 per cent. In other words, the Government received three-fourths of the gross profits and the manufacturer one-fourth. Now, in 1920 this firm was faced with increased freight rates, and although the same amount of capital was invested, they were only able to earn \$22,335.38, including the excise tax, or a total of 16½ per cent on capital invested. But the excise tax they were forced to pay during that year amounted to \$25,443.33, which placed them on the red-ink side of the ledger, and they suffered a loss of about 2½ per cent of their capital. This concern is manned by efficient officers and is very carefully conducted, it having the reputation of doing business as cheaply as any firm engaged in the carbonated beverage industry. This case is not unique. Such a condition is stifling the growth of this concern and is a menace to its prosperity, and this condition was occasioned by the excise tax.

The report of the Commissioner of Internal Revenue for the fiscal year ending June, 1920, shows that the 10 per cent sales tax on the soft drinks produced \$14,616,974. There is every evidence it will not produce as much this year. Figures from the Internal Revenue Department show that in December of 1920 revenue from these beverages was approximately \$111,000 less than in December, 1919; that in January, 1921, it was over \$200,000 less than in January, 1920; that in February, 1921, it was over \$60,000 less than in February of 1920, and in March, 1921, it was \$160,000 less than the preceding March. Figures for any months since then are not available. There is no question but that they will show the same proportionate decrease in revenue from these taxes.

This is occasioned by the fact that while the bottlers have been able to reduce their price some in this general reduction of prices which has been prevalent throughout the country, still they have been unable to bring their product back to its normal price of 5 cents, and consequently the public will not purchase the goods in real volume.

This tax is manifestly discriminatory: it was originally justified as a war measure. As the war has been successfully concluded, therefore every business on which special war taxes were placed should be relieved of such tax burden in order to give them an opportunity to recover, and the taxes should be spread equally and equitably over every phase of activity in the Nation. The bottling industry suffered tremendously during the war. Sugar is the fundamental basis of our product and it is well known what sugar conditions have been in this country for the past three years. The bottlers were curtailed by a regulation, but the industry did not protest over this because our manufacturers realized it was necessary that we do everything possible to aid the country in the time of trouble. It has been said that the industry was not essential to win the war and that it is what some people have styled a less essential or a luxury now. It is a peculiar coincidence that in a recent questionnaire which was sent out to the trade it was found that about the only bottlers in the country who made any money during the war period were those who were located near cantonments and furnished our boys who were in those camps millions of bottles of these beverages. The cantonments are now closed and these men find their business has been slashed to pieces. Certainly this consumption by our boys in uniform shows that it must have been a feature which added to their peace and contentment in camp.

Further, the bottle of carbonated beverage is a factor in the industrial life of this country. It is a fact that many of the largest employers of labor realize that they

can secure greater efficiency and consequently greater production by providing for the wants of their employees, and their investigations have shown them that it is advantageous for them to furnish their men with an opportunity to secure pure, healthful drinks other than water. Consequently, commissaries of many of the great manufacturing plants located throughout the United States are purchasing thousands of cases of carbonated beverages daily, which are placed on sale at cost in the factories for the benefit of the men during their working hours.

Certainly no one can contend that a drink that retails at 5 cents is a luxury, neither is the manufacture and bottling of soft drinks a nefarious business, as some people would lead you to believe. The great majority of these beverages are made of granulated sugar and extracts. They are articles of food and as such are justly taxable only as other articles of food containing sugar and extracts. It has been stated they are articles of food, and in substantiation of this a statement of Dr. C. L. Alsberg, chief of the Bureau of Chemistry of the United States Department of Agriculture, made during a speech he delivered in Cincinnati under date of November 12, 1920, is quoted from. Dr. Alsberg said:

"That puts the beverage industry in the front rank of the various branches of the food industry. I use this term food industry and classify the carbonated beverage industry among food industries designedly and advisedly. If carbonated beverages are made properly they can, I think, with entire justice and without fear of serious contradiction from any quarter, be classed as food products."

And in substantiation of his statement a recent article published by the Bureau of Chemistry of the Department of Agriculture is quoted from:

"An 8-ounce bottle of sweet carbonated beverage contains 1 ounce of sugar, which is approximately twice the sugar ration per meal under war conditions, when the amount was restricted to 3 pounds of sugar for 90 meals."

Dr. Alsberg, in his speech, further went on to show that the ordinary 8-ounce bottle of carbonated beverage contains a great deal more food property than large portions of some of the ordinary foods we find daily upon tables in American homes.

Certain people have intimated that the beverage business has profited by prohibition. That is true, but it is no more true with respect to this business than it is to all business in the country, and bottlers of soft drinks have received no more benefits from prohibition than the grocery merchant, or any other line of business. No man who thinks seriously about this question will contend that the man who saves two or three dollars a day, which he formerly spent for alcoholic beverages, spends anything like a considerable portion of this amount in soft drinks. Soda water will not take the place of liquor; it has not done so, and the money formerly spent on liquor is more likely to be spent for food and clothing than it is for soda water. The gross sales of the business for the past fiscal year were substantially \$146,000,000, while the amount of taxes that were formerly collected from alcoholic beverages under normal conditions was more than double this amount, being considerably in excess of \$300,000,000. Thus it appears that the revenue spent from liquor formerly can not be assessed against carbonated beverages, for beverage total sales for one year were less than one-half of the amount of taxes formerly collected on alcoholic beverages. The carbonated beverage industry is in no way a substitute for or an imitation of the alcoholic beverages formerly taxed. Since there is no valid reason for any special classification of this business with a view to the imposition of any special tax burdens upon it, the beverage manufacturers contend and insist that the principle of uniformity in taxation is applicable to them and that they are entitled to its protection.

They do not ask to be exempted from any tax burdens that all American industry and business must bear, but they do protest against being required to bear a greater share of those burdens than other industries and businesses bear, and they protest after having been subjected to these burdens they find that they are slowly being pushed toward the referee in bankruptcy.

The carbonated beverage industry is comprised of 14,000 plants in the United States. It employs over a hundred thousand people and represents an investment of over \$150,000,000, but of this number of firms 90 per cent are small concerns, the average invested capital of these concerns being less than \$5,000.

It has been suggested the manufacturers of bottled soft drinks have the recourse of reducing the size of his bottle and thereby make it possible for his product to be sold at 5 cents. It must not be forgotten, however, that the largest part of the investment of these manufacturers is tied up in bottles which are constantly in use and are only loaned to the customers. These bottles are a permanent investment which would be a dead loss in the event the size of the package had to be changed.

This is a general statement of why bottlers are asking relief as a business suffering under the present excise taxes, but this statement would not be complete without calling attention to the fact that the business of bottling carbonated beverages is in a

more serious position at the present time than any other business now paying an excise tax. There is a popular demand for the repeal of the war tax upon fountain beverages as levied by section 630 of the revenue act of 1918. A number of bills have been introduced in Congress repealing this tax. The repeal of this particular tax has also been included in every revenue bill that has been introduced in Congress recently. The former Secretary of the Treasury and the present Secretary of the Treasury have both recommended its repeal. If the special tax is taken off of the fountain drink and retained on the bottled beverage it will be the death knell to 14,000 manufacturers in this country. These two types of drinks are so closely allied and come into such intimate competition with each other, that should the tax be taken from either one and left on the other it would be fatal to the one subject to taxation. The taxes on fountain beverages are not only onerous to the public, but they have no practical virtues of certainty of productivity or efficient collection. But the bottlers insist it is impossible to consider one type of drink without considering the other.

Some Members of Congress in thinking of soft drinks think of those largely advertised drinks the parent companies of which are known to have made millions; this tax as levied by section 628a does not apply to those large concerns which have made these millions, but it is inflicted upon the small bottler who purchases his sirup from the large corporation for the manufacture of the beverage which he places in the bottle. It is the small bottler who is striving to make a living for himself and family and build up his business who is paying this tax.

It has been said that there is no relation between the tax on the bottled beverage which is paid by the manufacturer and the tax on the fountain beverage which is paid by the consumer. One has been styled a consumption tax and the other has been styled a sales tax or a manufacturers' tax. There is absolutely no difference in these taxes except in their source of payment. The fountain man is as much a manufacturer of carbonated beverages as the bottler. Their operation is identical. The fountain man purchases his sirup from these large sirup houses, adds carbonated water to it, and places it in a glass or open container for immediate consumption.

The manufacturer of carbonated beverages buys the same sirup from the company, adds carbonated water to it, and the only distinction is that he places it in a bottle or closed container for future consumption. There is no difference in these operations whatsoever, except that one drink you can take with you and the other you can not. This tax as levied by section 628, in case the tax as levied by section 630 should be eliminated, would then resolve itself into nothing more or less than a tax on the privilege of bottling. Certainly there can be no justification for such a tax. The fountain proprietor would perform the same operation as the bottler. He would manufacture the goods in the same way, and he would sell his product tax free, while the bottler would be subject to special taxation.

It has also been suggested there is no competition between these drinks, for one drink is put up to be sold in places where the fountain drink can not be secured. This is not true. Thousands of fountains throughout the United States are selling both types of beverages—that compounded at the fountain and the same beverage in bottles. There is a real demand for bottled beverages at the fountain, and this is occasioned by the fact that in bottled beverages you get a uniform drink at all times. Nearly everyone has gone into a soda fountain and asked for a certain type of drink; it has been noticed the boy back of the fountain shoots the sirup into the glass; sometimes he puts one shot in, and sometimes he puts two. The drink is very apt to be different every time. This is not true in the bottled beverage, for these beverages are put up by large automatic machines in such a way that each and every bottle has the same proportion of ingredients, and consequently tastes the same. There are hundreds of thousands of people who drink bottled beverages for this very reason.

But even presuming they did not have the same avenues of distribution, still if the fountain beverage is relieved and no relief is given to the bottled beverage, it would mean that in every store where bottled carbonated beverages are sold at the present time a soda fountain would be installed. This may seem like a radical statement, for the expense of installing these fountains would have some bearing upon this, but it is a fact that a soda fountain can be installed in any place at any time for less than \$25. The only equipment it is necessary for the merchant who is to-day selling bottled beverages to purchase in order that he may compound the drinks over his counter is what we call a "goose neck," and this can be secured any time for less than \$25. This goose neck is the spigot through which the carbonated water is drawn. What would happen is, the little storekeeper would immediately put in a fountain and throw out the bottled beverages. This same soda fountain can be set up in five minutes in any grove or park or any place else, so it is an absolute fact there is no place where bottled beverages are sold that a fountain beverage can not be compounded and served at a minimum cost.

It must be apparent from this statement of facts that these two types of carbonated beverages can not be considered separately, but must be accorded the same treatment in the new tax bill. Therefore, the 14,000 manufacturers of carbonated beverages in the United States respectfully petition that in framing the new revenue legislation relief from the present excise tax be accorded them, for they feel that the Government is endeavoring to be equitable and just in distributing the burden of taxation and does not care to inflict a greater burden upon one type of business than upon another. They feel that the Representatives in Congress are striving to protect American business, and they are asking for that protection they must have through fair and just revenue legislation, if they are not to be driven entirely out of business.

**HON. JAMES F. BYRNES, A REPRESENTATIVE IN CONGRESS FROM
SOUTH CAROLINA.**

Mr. BYRNES. Mr. Chairman, I will not consume five minutes. I want to say a few words with reference to this tax on bottled drinks.

I know that the subject is one that is always of interest and that you will listen to me with interest for a few minutes.

Mr. GARNER. Do you refer to carbonated bottled goods?

Mr. BYRNES. I refer to carbonated beverages, and I want to say that in order to answer the gentleman from Texas I have no reference to near beer.

But, Mr. Chairman, seriously, I want to say that of all taxes levied in our present bill I do not believe that there is any one that has proved as annoying as the tax on soft drinks. You recognized that in this committee, no doubt, when you reported to the House and passed a bill containing the provision as to the soda-fountain drinks.

But I think it would be unfair and unjust discrimination if we passed the same provision in the bill which is now being framed and failed to provide for the bottled goods and left a provision which levies a tax on the bottle trade.

Now, I know that that is not contained in this section, and that you are considering that as a manufacturers' tax. You hoped when you levied it that it would be, and supposed that it would be, paid by the manufacturer. I have no doubt that it is not absorbed by the manufacturer. It will not be, because it can not be.

The complaints that I heard about this tax in my own district caused me to make some investigation of it. I know that the manufacturers in many cases tried to absorb it, and whenever they tried they found that they could not do it, and the bottlers were threatened with destruction of their business. Therefore, they had to do just what the soda fountains have had to do and charge 1 cent on each bottled drink, and when you get a Coco Cola or a Cherry Cola you have to pay that additional 1 cent for that drink. When a child goes to buy a Coco Cola or a Cherry Cola of any kind, he has got to give this extra 1 cent; this little war tax has to be paid. If they go to a picnic or to a baseball game, or go anywhere else, it is the same thing; this 1-cent war tax comes up wherever they are. Now, if you will take—I know that my friend from Michigan (Mr. Fordney) once told me that the climatic conditions caused us to have different views about politics. He told me that down in Virginia, and maybe we have different views as to paying this tax, because he does not appreciate how general the use of soft drinks, bottled soft drinks, is, especially out in the country, where you can not get to a soda fountain, and the people have to pay this tax on the bottled drinks, Coco Cola, Cherry Cola, or whatever else they drink.

Now, when they come to town, when the farmer comes to town, there is a soda fountain that he can take his children or his family to, and there is about a half a dozen stores selling bottled drinks. Now, if they have to pay 1 cent additional on the bottled drink, no matter what it is, and at the same time the soda-fountain drink does not have to pay the 1-cent tax, the bottled drink will be put out of business. Those people who sell bottled drinks will have to go out of business.

It seems to me that it is fundamental and that we can not afford to discriminate against those people. We may as well put them out of business. I have known of them attempting to sell these drinks for 5 cents, these bottled soft drinks, Coca Cola and Cherry Cola, and other drinks of that character, but they were not successful.

I submit that it does not involve any argument, and that if you take this 1 cent tax off of the drinks sold at the soda fountains and do not take it off of the bottled drinks, that you are discriminating against the bottlers, in favor of the soda fountains, and you are discriminating against the people who are engaged in bottling and selling these bottled drinks.

Mr. GARNER. Suppose that we did not take it off of either?

Mr. BYRNES. If you do not take it off of these drinks sold at the soda fountain, then the people who handle bottled drinks have not got as good a case. I will say that. If you are going to impose a tax on both, all well and good, but if you are going to take it off of the soda fountain, then you should take it off of these bottled goods.

If you are going to attempt to get rid of the nuisance taxes, I think that you should get rid of this one. I think that this one heads the list. Every time a kid goes to a picnic or a ball game, and buys one of these drinks, he has to pay this 1 cent tax. And I know that the gentleman from Texas has not had an opportunity to observe, but having had an opportunity to observe, I will rate it as A-1 as a nuisance tax, and I will say that of all taxes I have never heard as much complaint as I have against this tax. The revenue produced is not considerable, and yet we are forcing the people to carry these coppers around. And then from an administrative point of view it works all sorts of ways. You and I, for instance, go in and buy two drinks for 10 cents and we have to pay 1 cent war tax; if we buy the two drinks together we put up 1 cent. Then my friend, Mr. Martin, buys a 5-cent drink and he has to put up 1 cent. My friend Mr. Tague buys a 5-cent drink, and he puts up 1 cent, but if they get together on the outside and buy the drinks together they do not have to pay but 1 cent.

Mr. GARNER. In other words, the tax does not work equitably?

Mr. BYRNES. Why, of course, it does not. But I just want to suggest to the committee that if you are going to and if the House is going to pass a bill repealing the tax on soft drinks at soda fountains, that they should do the same thing with regard to the bottled goods, and should repeal the tax on both. Certainly if the argument is good with regard to one, I do not think for a minute you can afford not to take this tax off of the other. If you take it off of the soda fountain drink, I do not think you can afford not to take it off of the bottled goods.

Mr. LONGWORTH. In other words, if you amended section 628, you would also amend section 630?

Mr. BYRNES. I am frank to say, gentlemen, I do not know about the manufacturers' tax which is levied, but I know this, that if you go into the Republican cloakroom and you go there to buy a bottle of sarsaparilla or anything of that kind, that in addition to the 5 cents you pay for the bottle of sarsaparilla you have got to pay this 1 cent war tax, and then if you go down the streets of Washington, and you come to a drug store where there is a soda fountain, and you buy a soda water, you will not have to pay the tax, if it is repealed, and if you repeal it from the soda fountain you certainly should repeal it from the bottled goods. There is a man right on this same street, right in the same block, selling the bottled goods and he will have to go out of business.

Mr. LONGWORTH. I do not see any good reason why if section 630 is repealed, that something should not be done to section 628.

Mr. BYRNES. I agree with my friend Mr. Longworth with what he has just said.

That is the only argument that I have to make to the committee.

Mr. LONGWORTH. As a matter of fact, I do not approve of encouraging children to drink too much Coca Cola.

Mr. BYRNES. Well, I merely mentioned Coca Cola, because it is a drink which is most generally used. It is only one of about a dozen drinks, and I understand from the bottled drinks people that there are a great many more other drinks sold than Coca Cola, and that Coca Cola probably constitutes the very smallest drink, bottled drink, sold. You will find that in the hearings from the man representing them, Senator Hardwick, who represented the bottlers. I am not in a position to judge as to the correctness of his statement.

Mr. GARNER. Our taxes were supposed, or it was supposed that some of our taxes, war taxes, would be repealed, and that taxes would be reduced at least, that was the supposition some time ago. Now, it seems to be the disposition to shift, and if there is any shifting to be done, or repealing to be done, you suggest that this one section should be repealed, or shifted, if necessary. That is your contention?

Mr. BYRNES. That is my contention. And if you want to get rid of nuisance taxes, if that is the purpose in shifting taxes, is that you wish to get rid of nuisance taxes, although I think you will have difficulty in finding any tax that is not a nuisance, I think that you should certainly get rid of this tax.

The CHAIRMAN. If the gentleman goes over into the cloakroom to buy a soft drink, he pays that tax and complains of the tax, but he buys a cigar there—an imported cigar—which has a duty added to the price, he pays that and does not think anything about it. One is a Republican and the other is a Democratic tax.

Mr. BYRNES. That would be a sufficient reason for me to do so, but, as a matter of fact, I do not buy cigars at all; therefore, I have no complaint to make about it.

CEREAL BEVERAGES.

LEVI COOK, WASHINGTON, D. C.

Mr. COOK. Before I start in with a statement, under section 628 of the old act, I would like to refer to a statement of the Resident Commissioner from the Philippines regarding the taking care of the

American citizens in the Philippine Islands. The committee may not have had its attention drawn to the fact that the British Government exempts its citizens in the Orient for gains acquired in their business in the Orient from the British income-tax laws.

The CHAIRMAN. That is the case everywhere. The testimony is overwhelming here on that.

Mr. COOK. I did not know whether the committee had their attention drawn to it. But it is equally important in China.

The CHAIRMAN. They have; and bills have been reported out to relieve citizens under those circumstances in China.

Mr. COOK. On section 628, I wish to speak for the Anheuser-Busch Brewing Association respecting the taxes on cereal beverages. There is now a tax equivalent to 15 per cent of the price at which these cereal beverages are sold. The latter part of paragraph (a) of section 628 levies 10 per cent on all soft drinks. That is included in the present 1918 act. That ought to be corrected. If there are any taxes on soft drinks, they ought to be uniform on all soft drinks, as all soft drinks compete with each other. There is no distinction between soda pop and these present cereal beverages, because of the much larger cost of these cereal beverages. The soft-drinks manufacturers have been before the committee and asked for an entire exemption of their soft drinks under paragraph (a) of section 628.

If there should be an exemption of them which leaves the tax on the cereal beverages, it would put the cereal beverages out of business, and to-day cereal beverages cost considerable to manufacture. The cereal beverage contains less than one-half of 1 per cent of alcohol and it costs twice to manufacture what the alcoholic malt liquors would cost. They are handled under a process of dealcoholization at an additional cost, with additional materials, almost equal to that of the original materials used, to prepare for the market, with flavor and solid content, the cereal beverages that they sell. With this 15 per cent tax on the selling price, it is very difficult for this new business which is being developed to grow and continue. And if they are compelled to meet nontaxpaying, competing articles sold side by side with their product, they are out of the business.

There is a very considerable employment of men in the country in the manufacture of these cereal beverages and a very great investment in property still devoted to their manufacture, and a very substantial tax has been paid in the past, and if business conditions improve there should be a substantial source of revenue in this product. But if other articles are not to be taxed which compete with them or are to be taxed at 33 $\frac{1}{3}$ or 50 per cent less, it is obvious that this part of the soft-drink business of the country can not continue.

These cereal beverages are made from the very best quality of barley, malt, and other kinds of cereals, and there is a very substantial use of agricultural products in their manufacture, and on behalf of the Anheuser-Busch Co. (Inc.), engaged in the manufacture of one of these articles, we urge that the committee in any treatment of section 628 make the tax equal on all soft drinks that compete one with the other, and if there is any exemption that the same exemption be given to the cereal beverages.

FRUIT JUICES—GRAPE JUICE.

HON. MILTON W. SHREVE, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA.

Mr. SHREVE. Mr. Chairman and gentlemen, you may remember that last year you reported out a bill reducing the tax on fruit juices, particularly grape juice. That bill passed the House, went over to the Senate, and I hold in my hand a copy here of the hearings. They are very voluminous in the Senate, and if the committee would be satisfied with these hearings I will not ask to take up any further time.

The CHAIRMAN. I think if it is only a repetition of what has been said, it will not be necessary to go over it again.

Mr. SHREVE. Yes; it is.

Mr. YOUNG. Who are the principal ones who testified?

Mr. SHREVE. At the second hearing we brought the principal grape growers from all over the United States. Their names will be found here. I do not recall them.

The CHAIRMAN. We had some hearings on that, and those together with the hearings before the Senate, I think, are sufficient.

Mr. YOUNG. Has the condition of the industry changed for the better since then?

Mr. SHREVE. The condition is very much worse now than it was at that time.

I call your attention particularly to these two hearings, the first held on February 24, 1919, and the second March 30, 1920.

Mr. FREAR. What pages of the record?

Mr. SATTERLEE. This is a copy of the Senate hearings, and the last hearing was on May 25 of this year, 1921. In this hearing we brought in the manufacturers; prior to this time we had simply heard from the growers, but we brought the Welch Grape Juice people, Armours, and a lot of others at this time, and I think you will find it all in there; if you do not, let me know, and I will be glad to furnish it.

Mr. HAWLEY. Mr. Chairman, I have here a brief of six of the leading grape-juice producers of the country and request it be printed in the hearings.

BRIEF OF AMERICAN FRUIT JUICE PRODUCERS' ASSOCIATION, CHAUTAUQUA AND LAKE ERIE FRUIT GROWERS' ASSOCIATION, SOUTHERN MICHIGAN FRUIT ASSOCIATION, NATIONAL GRAPE GROWERS' ASSOCIATION, HUDSON RIVER FRUIT EXCHANGE, AND ERIE COUNTY (PA.) GRAPE GROWERS.

BRIEF OF THE AMERICAN FRUIT JUICE PRODUCERS' ASSOCIATION.

This brief is a statement of the case of the producers of grapes and of the manufacturers of grape juice, upon which they ask that the present tax on grape juice be removed. The present revenue law places a tax of 10 per cent on the selling price of grape juice when sold by the manufacturer, and an additional 10 per cent fountain tax when sold as a carbonated beverage.

It will be shown:

A. That the present tax is—

1. So burdensome as to defeat its purpose.
2. It is double and even triple taxation.
3. A direct tax on an agricultural product.
4. It is discriminatory and out of proportion to the tax assessed on other articles.

B. That grape growers throughout the United States are vitally interested in the preservation of the grape-juice business and are equally affected by this tax. Any

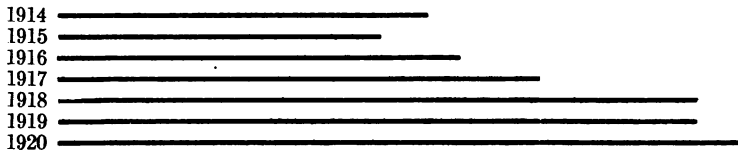
legislation or tax which reduces the production of grape juice by the juice manufacturers lessens the opportunity of the grape grower to find a profitable market for his products. The present grape-juice tax threatens to take away from the grape grower this ready market for a large proportion of the production, as it is clear that the present tax on grape juice is ruinous to the industry. Without this grape-juice market the grape grower can not expect to survive.

STATEMENT OF THE GRAPE JUICE MANUFACTURERS.

This tax is an unjust tax.—This statement is made with due regard for the facts and without prejudice against the Congress which enacted it. Under the pressure of war-time conditions and the urgency of the need for a great revenue-producing measure, it is not surprising that the manufacture and sale of grape juice should be sought as a source of revenue and that many Members of Congress should have sought the shortest method possible—that is, to group this food product with the so-called "soft" or synthetic beverages.

As a matter of fact, the grape-juice business as an industry has never been very large, and at the present time, owing to taxation under the present law and the unusually high cost of production, now faces actual ruin. Grape-juice manufacturers have always operated on a narrow margin of profit, depending entirely upon volume of sales for a return on invested capital. Grape juice must be produced at or near the vineyards during the short harvest season of about 20 days, and its manufacture involves large investment in plant equipment, expensive processing, long storage through the seasons, and an unusually high degree of technical skill. In order to obtain national distribution it is necessary to pack grape juice in costly wooden cases containing 4-ounce, pint, or quart bottles, which are shipped throughout the United States to the general market. Owing to the nature of the business and the long freight hauls it is impossible for the manufacturer to secure the return of empty bottles and cases for reuse.

The cost of grapes, bottles, boxes, packing, etc., has steadily risen from year to year, as is shown graphically as follows:



Before the enactment of the present revenue law, which placed a tax upon grape juice, the industry was severely handicapped owing to the constantly increasing cost of production and transportation which necessitated retail prices so high as to materially reduce consumption. The tax of 10 per cent on the manufacturer's selling price has added to this handicap to such an extent that it is no exaggeration to say that unless this tax is removed before the coming grape harvest season there will be little if any grape juice packed. A large part of the 1919 press of grapes was carried over, owing to the impossibility of sale at the necessarily high retail price. In 1920 there was packed 3,191,930 gallons, and this, together with the carry-over from the preceding year, amounting in all to 5,146,777 gallons, remains unsold in the hands of manufacturers and jobbers. In other words, there has accumulated unsold almost a two-year normal supply of grape juice. It is apparent that no industry can survive without a turnover of at least a major part of its production each year.

The 10 per cent tax on the manufacturer's selling price has contributed greatly to the depression in this industry. It adds to the selling price of this fruit juice 72.3 cents on each case sold, which is equivalent to a tax on the juice of 38 per cent of its actual manufacturing cost. In terms of cost of grapes per ton, it increases their price \$43.11 per ton. The present law places a tax:

- (1) On the cost of raw materials.—The raw material for a gallon of grape juice costs 76½ cents; for a gallon of synthetic beverage, average 28 cents.
- (2) On the cost of pasteurization and storage, sedimentation, decantation, repasteurization, bottling, labeling, and packing.—Of these items, only the cost of one process, bottling, enters into the cost of "soft drinks."
- (3) On the cost of nonreturnable cases, bottles, and labels.—The cost to the juice manufacturer of a case of empty 4-ounce bottles is \$2.62—tax, 26 cents.
- (4) On cost of transportation.—The average freight charge on each case of grape juice in 1920 was 47 cents, upon which an additional 3 per cent freight tax was paid. The

grape juice tax adds to the selling price of this product approximately 5 cents per case on the freight item alone.

The manufacturer's tax of 10 per cent, excessive as it is, is not the only tax burden. Grape juice is frequently sold at the fountain diluted with carbonated water. The beverage so made is again taxed 10 per cent under the present law. This further increases the retail selling price, and as the retail price has become extremely high, owing to the constantly increasing costs of production, the sale of this healthful, pure-fruit product has been greatly curtailed. Unless the retail price of grape juice can be brought down to a reasonable basis and these excessive taxes removed, the grape-juice industry can not hope to continue.

The grape-juice industry had its beginning 52 years ago. At that time grape juice was almost entirely used for sacramental and medicinal purposes. Grape juice at the present time is extensively used in hospitals and by invalids, convalescents and in the diet of children. It is recognized as having unusually high food value and is valued by physicians for its antiscorbutic properties. (See authorities quoted in Exhibit 1.)

The manufacture of grape juice is the most convenient and economical method of conserving the valuable food elements of the grape. As a product it is economically comparable with canned fruits and vegetables. It is an agricultural product which at the present time is being taxed out of existence, despite the fact that no other preserved fruit or vegetable is so burdened by such taxation. It is just as logical for Congress to tax canned corn or fruit jams as to place a tax upon a healthful fruit product, such as grape juice, which permits the public to obtain throughout the year the valuable constituents of fresh grapes.

That part of the grape-juice production sold as a beverage at the soda fountain meets in direct competition the so-called "soft drinks." Most soft drinks (not including cereal beverages) are sold in bottles in carbonated form, or as flavoring sirups carbonated at the fountain. Soda water flavoring sirups are not taxed; only the beverage made by the addition of carbonated water is taxed at the fountain. Yet grape juice, carbonated and sold in the same way, bears both a manufacturer's selling-price tax and a fountain tax.

Bottled carbonated "soft drinks" bear a manufacturer's selling tax, but as these "soft drinks" are manufactured locally, the capital employed is limited and the manufacturers secure the return of empty bottles and cases, which eliminates from their selling price a very considerable item, the tax paid is very small. Where the grape-juice manufacturer must of necessity include the cost of expensive bottles and cases and long freight hauls in his selling price, the "soft-drink" manufacturer has practically none of these charges. As a result, these "soft drinks" can be sold for from 5 to 8 cents a glass in the same market with grape juice selling for from 18 to 25 cents. "Including materials, labor, rent, delivery, local taxes, and overhead," these "soft drinks" cost uniformly about 62 cents per case, or 41 cents per gallon.¹

The manufacturer's tax alone on a case of grape juice is 72.3 cents, or more than the entire cost of a case of these "soft drinks."

The actual cost to the manufacturer of 1 gallon of grape juice is \$1.88, as compared with 41 cents per gallon for "soft drinks," figured on the same basis. The following table of comparison is interesting:

	Grape juice.	"Soft drinks."
Cost per gallon	\$1.88	\$0.41
Manufacturer's tax .....	.24	.061
Fountain tax	1.28	.....
Total tax	1.54	.061
Per cent of tax to cost of material	88	15

Or shown graphically:

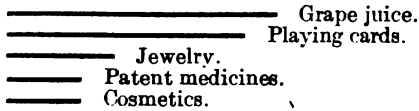
Per cent tax on grape juice cost _____

Per cent tax on soft drinks cost _____

It is apparent from the above that grape juice is taxed far out of proportion to the tax placed by the present law upon the "soft drinks" with which it must compete at the fountain.

¹ Charles V. Rainwater, expert, representing the Coco-Cola Co., and Lee Hagan, published in *Southern Carbonator and Bottler* for April, 1919, pp. 64-68.

The following graph will furthermore illustrate the fact that Congress has placed upon this pure, healthful food product a greater tax than has been placed upon many of the so-called luxuries:



STATEMENT OF THE GROWERS.

Raisin grapes are not used for making grape juice. This branch of the grape industry is not concerned in this matter and is not considered in this brief.

There are but two important outlets for the grapes raised in the United States (excepting raisin grapes), and these are: (a) Manufacture of grape juice: 45 per cent of the 1919 crop was sold for this purpose; only 14 per cent of the 1920 crop; (b) shipment in packages to national markets: the movement to market in 1920 of all grades grown east of California amounted to 12,058 cars.

"Table grapes" are so perishable, and therefore so difficult of commercial sale in packages and long-distance shipment, that the permanent closing of the outlet, (a) the manufacture of grape juice, can mean not only the total loss to the growers of large amounts of the fruit, but also the glut of every principal market with the grapes which the growers will try to sell, and hence a period of ruinous low prices to all growers everywhere.

It costs between \$80 and \$100 an acre a year to grow grapes in New York.¹

Grapes average but a little over 1 ton per acre; to be exact, 2,100 pounds, according to Mr. Falvey.²

Before the grape juice industry was established grapes sold from \$8 to \$10 a ton.³ Since the establishment of the grape-juice factories, providing a new outlet for grapes, prices increased to an average of \$65.25 a ton.

This is the last outlet left to the grower for his surplus grapes, and to shut it off by this prohibitive tax is to ruin the grape industry.

Attention is called to the fact that the grape-juice manufacturers took but 14 per cent of the crop last year, as against 45 per cent the previous year. They paid only \$1,599,000 for grapes in 1920, as against \$3,700,000 the previous year.

In the industry of grape growing there is now invested outside of California not less than \$56,000,000 in land, vines, trellises, packing houses, and cultural equipment. Grapes are grown in almost every State in the United States, as shown by the census reports.⁴

Grape juice is made in all the large commercial grape-growing areas in the United States, and the industry provides a market for grapes which is a necessary outlet to permit the grape-growing industry to survive.

Relationship of grape-juice industry to grape-growing industry.

Capacity of factories.....	tons..	63,000
Size of 1920 crop (in areas where factories are located).....	do....	100,000
Size of crop in 1919 (same area).....	do....	90,000
Percentage of crop used by factories in 1919.....	per cent..	45
Percentage of crop used by factories in 1920.....	do....	14
Money paid by factories for grapes in 1919.....		\$3,705,930
Money paid by factories for grapes in 1920.....		\$1,599,650

The falling off in grapes used and money paid out in 1920 is self-evident.

The statement of numerous witnesses proved that the grape-growing industry was not profitable nor stable until the grape-juice industry grew to sufficient capacity to furnish the outlet for from one-third to over one-half the grapes produced in the big commercial areas. Grapes are very perishable. They can not be reconsigned from market to market. They must be moved as picked and be sold at once, and gluts and surpluses can only be avoided by outlets such as the grape-juice factories supply. Without grape-juice factories operating in vineyard districts great quantities of grapes would be lost through spoilage.

Small producing areas can not be developed unless the larger competing areas have the surplus outlet provided by a going grape-juice industry.

¹ Statements D. K. Falvey and S. F. Nixon, pp. 98, 128, 129, and 130, Senate Finance Committee hearing unfermented fruit juices, Mar. 30, 1920.

² See statement quoted last.

³ Statement G. S. Pierce, p. 125, hearing on unfermented fruit juices, Senate Finance Committee, Mar. 30, 1920.

⁴ Pp. 77-96, Hearing Unfermented Grape Juices, Senate Finance Committee, Tuesday, Mar. 30, 1920.

The tax of 10 per cent represented in 1920 a tax of \$32 on every ton of grapes used in this industry. For 1921, with the increasing costs, it will represent a tax of about \$43 on every ton. This is manifestly a tax which the growers can not stand.¹

This tax injuriously affects every State in the United States.

The 1920 agricultural census figures are not completely available, but in those States now tabulated it is found that the grape-growing industry developed very rapidly up to 1919.

In Washington, for example, nearly 7 per cent of the farmers grow grapes, with nearly 500,000 bearing vines and a total production of nearly 4,000,000 pounds, an increase of over 230 per cent in 10 years.

In Oregon, 13 per cent of the farms produce grapes, with a total of 3,000,000 pounds.

In Alabama, 24,928 farms grow grapes, an increase of 10,000 over 1909.

Even in Maine 4 farms out of every 100 grow grapes.

In Maryland, more than a third of the farms in the State have vineyards.

In Ohio, there has been an increase from 30 per cent to 48 per cent in the farms producing grapes since 1909.

Utah produced more than a million pounds per year and Idaho more than a half million.

In Massachusetts 22.9 per cent of the farms grow grapes, an increase of 6.6 per cent since 1910, producing over a million pounds.

In Delaware 18.5 per cent of the farms grow grapes, an increase of 6.4 per cent. Total production 1,445,000 pounds.

West Virginia shows 35 per cent of the farms produce grapes, an increase of 8.7 per cent, producing 2,186,000 pounds of grapes.

Indiana has 34.5 per cent of the farms producing grapes, producing 6,600,000 pounds of grapes.

The complete tabulation of the grape crop, complete by counties in every State, is found in report of the hearings referred to (pp. 77-96).

The industry is unable to stand up under a 10 per cent tax.

The evidence is quoted to show that the 1920 production of grape juice is not being marketed; that it can not be sold subject to the present tax load, and that the tax thereby defeats itself. The facts are equally clear that unless the grape juice can be sold this market for the farmers' grapes will be cut off in the future. The manufacturer can of course close down and take an enormous loss, but the vineyardist can not shut down his vineyard. It must be worked or it is ruined and his capital investment lost.

The manufacturer can not control the cost of his raw material. That is controlled by supply and demand in an open market, but the lessened demand for his own product, which is caused by this prohibitive sales tax, can be controlled and removed by Congress.

SUMMARY.

We submit that the case against this tax is complete. Under its operation the business of manufacturing grape juice has dropped from 7,000,000 gallons in 1919 to about 3,000,000 gallons in 1920. Sales of grapes to the juice factories have dropped from 45 per cent of the total crop in 1919 to 14 per cent in 1920. Grape-juice factories paid \$3,700,000 to growers for grapes in 1919 and only \$1,599,000 last year.

Sales of grape juice have fallen to 320,000 gallons since the last harvest. The normal and expected growth of this industry, based on experience up to the time this tax was imposed, would warrant a business now of at least 7,000,000 gallons a year.

The tax has not been repealed, and instead of this business, there remains unsold on April 1, 1921, 5,146,777 gallons carried over from 1919 and 1920.

Every grape grower in every State, whether he sells to a local market or a juice manufacturer, is directly handicapped by this tax.

Millions of people who have used this pure product—grapes in liquid form—in past seasons have been deprived of this privilege and of this beneficial, healthful, and valuable food.

CONGRESS SHOULD RECOGNIZE THAT GRAPE JUICE IS A FOOD.

It would be as logical and as fair to tax the producer of milk or butter, jams or preserves, canned fruits or any other food product, as to tax grape juice. Such taxation has never been attempted in any American system of revenue production.

The Government is now deriving little if any revenue from the grape juice tax owing to the decrease in consumption, for which this tax is itself largely responsible. Even if the revenue derived from it were large it is not believed that this Congress

¹ Page 101—Unfermented grape juice hearing, previously mentioned.

intends to tax out of existence the manufacturers and farmers who have here attempted to picture the crisis that now confronts them.

If our vineyards and plants are to be saved relief must be afforded at once.

We are here fighting for existence, to save not only the grape-juice business, but the grape-growing industry as well, which depends on the grape-juice business as a controlling factor in its market.

AMERICAN FRUIT JUICE PRODUCERS' ASSOCIATION,
DANIEL R. FORBES, *Counsel*.
CHAUTAUQUA & LAKE ERIE FRUIT GROWERS' ASSOCIATION,
D. K. FALVAY, *President*.
SOUTHERN MICHIGAN FRUIT ASSOCIATION,
M. H. PUGSLEY, *Director*.
NATIONAL GRAPE GROWERS' ASSOCIATION,
O. W. JOHNSON, *President*.
HUDSON RIVER FRUIT EXCHANGE,
EDWIN W. BARNES, *President*.
ERIE COUNTY (PA.) GRAPE GROWERS,
GEORGE E. PIERCE, *President*.

EXHIBIT 1.—FOOD VALUE AND HEALTHFUL QUALITIES OF GRAPE JUICE.

[Authorities: U. S. Department of Agriculture, Bureau of Plant Industry, Bulletin 24, George C. Husmann.]

The uses of unfermented grape juice are many. It is used in sickness, convalescence, and good health, as a preventive as well as a cure. By the young, by persons in the prime of life, and by those in old age it is used at all seasons of the year, whether that season be warm or cold, wet or dry. It is used in churches for sacramental purposes, at soda fountains as a cool and refreshing drink, in homes, at hotels, and at restaurants as a food, as a beverage, as a dessert, and in many other ways. When people become accustomed to it, they rarely give it up; hence the manufacture of grape juice will probably increase enormously as the years go by.

In Farmers' Bulletin No. 644 (U. S. Department of Agriculture) Mr. Husmann says:

"The effect of unfermented grape juice on the human system has been studied at the so-called 'grape cures' long in vogue in Europe and has been investigated to a slight extent in laboratories. It is generally claimed that the consumption of a reasonable quantity of unfermented grape juice improves digestion, diminishes intestinal fermentation, and results in an increase in body weight.

"The nutrients in grape juice are the same as in other foods, and, as the percentage of water is high, it resembles liquid foods more closely than solids. It contains less water, however, than does milk, the most common form of liquid nourishment; it has more carbohydrates, largely present in the form of sugar, and has less protein, fat, and ash than milk. Carbohydrates are the principal nutritive ingredients. Grape juice as a food is essentially a source of energy, therefore, and may help to make the body fatter, though it is of slight assistance in building nitrogenous tissue. Sugars in moderate quantities are wholesome foods, and grape juice offers them in a diluted and palatable form. Moreover, the agreeable flavor increases the appetite, which is a consideration by no means unworthy of attention."

In the "Art of Living in Good Health," by Daniel S. Sager, M. D., it is stated, on page 89: "The juice of sweet grapes may be used freely for infants, replacing to advantage, in many instances, milk, beef tea, etc."

C. F. Langworthy, Ph. D., in Farmers' Bulletin 293, refers to grapes as a food fruit and to grape juice as a dilute food. In a table in this bulletin he shows that there is more food material in a pound of grape juice by one-tenth of 1 per cent than there is in porterhouse steak, and just as much as there is in a pound of mutton leg.

[United States Pharmacopœial Convention, Apr. 5, 1920.]

HON. DANIEL A. REED,
House of Representatives, Washington, D. C.

DEAR MR. REED: My attention has been drawn to the fact that a revenue tax is now levied against grape juice whereas some other fruit juices are tax free. My attention has also been called to the additional fact that a pure synthetical beverage of very inferior quality to grape juice and which contains as one of its ingredients the alkaloid caffeine, well known in its free state to be highly injurious, is also tax free. Grape juice is a food product of high value by reason of the natural sugars it contains. Its mineral constituents combined with a natural acid tartaric which gives it additional wholesomeness and palatability. While I realize the necessity of taxation, in which

all persons and all articles should share, I believe I am justified in protesting against such a discrimination as that to which I have referred. In the interests of health and nutrition an article so valuable as grape juice should not be made to suffer from discriminatory taxation. I believe it would be a matter of justice to tax synthetic products, especially those which contain elements injurious to health and remove the burden of taxation, in so far as possible, from natural and wholesome food products.

H. W. WILEY.

[Life Extension Institute (Inc.), New York.]

Mr. A. M. LOOMIS, *Washington, D. C.*

MY DEAR MR. LOOMIS: In the matter of grape juice I wish to state that unfermented grape juice is a wholesome and nutritious food and a valuable source of fuel food through its high percentage of carbohydrates, not only in a normal general dietary, but in conditions of low nutrition, convalescence, and other states where a rapidly available fuel food is required in a pleasant and palatable form.

There is no more reason for discriminating against grape juice than against any other wholesome and desirable food substance, and because of its availability in states of illness, when ordinary food substances of a similar character might not be especially exhibited, I am opposed to any restriction upon its sale or production.

E. L. FISKE, M. D., *Medical Director.*

Grape juice is a valuable food beverage and is recommended by physicians for use in the sick room, in homes and hospitals throughout the country. In fact grape juice was first brought into use through the medical profession and the hospitals. It is served to fever patients as a matter of routine in practically all hospitals and sanatoriums, and is extensively prescribed for nearly all patients because of its pleasing taste, flavor, digestibility and refreshing service, as well as its food value.

O. F. BALL,
President Modern Hospital Publishing Co.

SOFT DRINKS AND MEDICINES.

BRIEF OF THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS.

DEAR SIR: The National Association of Retail Druggists, on behalf of the 50,000 druggists of the United States, respectfully urges the early repeal of the soft drink tax and the tax on medicine. The druggists of the country are as ready to do their full patriotic duty during the reconstruction period as throughout the late World War and bear their fair share of the burdens of taxation. They do not think they should be called upon to do more than other taxpayers. The creation of tax collectors without pay and with heavy responsibilities, limited to retail druggists in the main, was hardly justifiable during the trying ordeals of the war, and it is certainly not warranted now. The Federal Constitution provides that:

"The Congress shall have power to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defence and general welfare of the United States; but all duties, imposts, and excises, shall be uniform throughout the United States."

Section 630, of the revenue act of 1918, levies a tax on soft drinks and ice cream sold at soda fountains and similar places, distinguishing between ice cream sold at a fountain and ice cream consumed in the home, or as part of a meal in a restaurant. This is clearly a discrimination against retail druggists, as they constitute a large majority of proprietors of soda fountains. There is neither justification nor excuse in law or morals for this discrimination.

Collectors with and without pay.—Section 1301, of the revenue act of 1918, provides for a salary of \$6,000 per year for revenue collectors, but the act provides not one penny for the retail druggists it designates as collectors of the soft drink tax and the tax on proprietary medicines and toilet articles. Section 1308 imposes a fine of not more than \$10,000, or imprisonment for not more than one year, or both, together with the costs of prosecution, upon any person who willfully refuses to pay, collect or truly account for and pay over the soft drink, proprietary and other taxes levied by the act, or who willfully refuses to make such return or supply such information at the time or times required by law or regulation. Section 1308 also imposes a penalty of not more than \$1,000 in addition to other penalties provided by law upon any person required to pay, collect, account for and pay over any tax, or to make a return

required by law or regulations, or upon any person who fails to pay, collect, or truly account for and pay over any such tax as is imposed by the act, including the soft drink and proprietary taxes. According to the Internal Revenue Bureau, there are thousands of violations of the soft drink tax law and regulations charged up to retail druggists, and many violations of the proprietary tax law and regulations are also charged against them.

General misunderstanding and confusion.—The Secretary of the Treasury admits in his last annual report to Congress that the soft drink tax is a "nuisance," so far as its collection by the Government is concerned. The experience of the druggists has been lamentable, to say the least. Many of them are to-day held by the Government for having made returns and payments of the soft drink tax contrary to the law and regulations although in many instances the druggists have based their returns and payments on records kept in accordance with requirements laid down by representatives of the Internal Revenue Bureau. The National Association of Retail Druggists at the very outset requested the department to issue a uniform requirement for keeping records as the basis for returns and payments of the soft drink tax, but it declined to do so, and to-day occupies the position of repudiating in Washington what its agents authorized and directed in the field. All things considered, it can hardly be denied that both the soft drink and proprietary taxes cost the Government more than they yield, if not in revenue then certainly in the respect and good will of the public. As was pointed out in the House during the debate on the revenue bill, a tax on little children is one which can find anything but a good defense, although it might have been excused by the exigencies of the war.

Soft-drink tax impracticable.—The soft-drink tax not only costs the Government more than it is worth, but it has been proved impracticable in its collection. The Internal Revenue Bureau itself has furnished the proof. For instance, a "flying squadron," with headquarters in Washington, has estimated the number of glasses of the drink commonly sold as "Coca-Cola" that should and must be obtained and dispensed by a retail druggist from a gallon of Coca-Cola sirup. This was arbitrarily done by administrative officers in Washington without experience in the retail drug business in dispensing Coca-Cola. No allowance whatever was made for a number of factors entering into the mixing and dispensing of Coca-Cola, with which retail druggists and others in the business alone are familiar. No two druggists or clerks ever use exactly the same amount of sirup when mixing it with carbonated water at the fountain. There is no way of estimating the quantity of Coca-Cola consumed by druggists or their clerks themselves, or the quantity wasted when mixing the sirup with the carbonated water, or the quantity to which druggists or clerks "treat" their customers, or friends, or business associates. Take ice cream, as another illustration. Local revenue officers have a way of making arbitrary estimates based upon druggists' invoices. They overlook the fact that one druggist may make most of his sales of ice cream at his fountain, or from tables in his store, and therefore would be subject to a much larger tax than another druggist in the same vicinity who had developed most of his ice cream business by sales in packages, or boxes, not taxable. Invoices could not possibly form a just basis for determining the tax that should be collected, returned, and paid by the druggist. Another factor frequently ignored by revenue officers and complained of by druggists is their failure to take into consideration the shrinkage in many cans of ice cream, if not all of them, between the time it is delivered to the druggist and the time it is opened for sale to the consumer at the fountain. It is well known that this shrinkage is considerable, but Internal Revenue Officers either know or care nothing about this in determining the tax which druggists are required to collect and pay. Mr. Charles J. Fuhrman, secretary of the District of Columbia Pharmaceutical Association, made a practical test to obtain the facts. He took a 12-quart can of hard ice cream and had his clerk put it into quart boxes as he would in dispensing it to the public. The clerk offered a box containing 28 ounces to a customer, but he refused to accept it. A 30-ounce box was accepted, and in some cases the customer required 32 ounces in a box. After the ice cream was put in quart boxes, having been kept as hard as possible in the meantime, it was all put back into the 12-quart can from which it had been taken. The depth of the can was 16 inches and the ice cream when returned to it had shrunk to 11 inches, a loss of 5 inches. Mr. Fuhrman estimated that he actually obtained 8½ quarts of ice cream out of this 12-quart can. Manufacturers make 10 gallons of ice cream out of 5 gallons of material, showing that the air and other considerations are large factors in determining the quantity of the finished product, in the first instance, and the quantity subsequently under changing conditions.

Tax on medicine unjustifiable.—The tax on medicines—particularly the poor man's medicine—was never justifiable, under any circumstances, and certainly can not be justified now. Section 907, of the revenue act of 1918, imposes a tax on proprietary medi-

cines and toilet articles alike—one a necessary of life and the other a luxury. The Canadian Parliament last summer recognized the injustice, as well as the unwise public policy, of imposing a tax on proprietary medicines and repealed the tax. The controlling argument that resulted in the repeal was presented by Mr. Henry Miles, a member of Parliament, who contended that it would be far more reasonable and just to tax a well man for his food when earning his wages and able to pay a tax than to tax the sick and suffering when unable to work and without income to pay a tax. The strange thing is that this unanswerable argument did not occur to the Canadian Parliament or to the American Congress in the first instance, when the tax on the poor man's medicine was proposed. The theory upon which Chairman Simmons, of the Senate Finance Committee, justified the proprietary tax was not based on fact, but upon assumption, the assumption that proprietary preparations because called "patent medicines" are made and owned by persons enjoying a monopoly in their manufacture and sale. This is not true, because practically every proprietary medicine marketed is in competition with numerous other remedies held out to the public for the relief or cure of the same disease, or ailment. Again, retail druggists are overburdened with the collection of this tax, which must be collected on the thousand and one articles in the form of pills, tablets, powders, tinctures, troches or lozenges, sirups, medicinal cordials or bitters, tonics, plasters, liniments, salves, ointments, and other medicinal preparations or compounds sold in the average drug store. Stamps must be canceled by the druggist and affixed to every container or package of a taxable article. Frequently druggists' clerks, occupied with other pressing matters, and suddenly called upon to make a sale of a small taxable article, have forgotten to affix the tax stamp and their employers have been compelled to pay hundreds and thousands of dollars in penalty, after suffering the loss of valuable time and expense of lawyers' fees in adjusting their troubles with the Government. The question may well be repeated, is this tax worth to the Government the cost of collecting it, not only to retail druggists but to the Government as well? Has the Treasury Department, or Congress, ever estimated the cost to the Government of providing space for the thousands and millions of records required by the department, and the number and salaries of the administrative force necessary in Washington and in all of the revenue districts supervised from Washington to take care of these records, inspect them, etc.? Retail druggists do not know what it costs the Government, or the taxpayers of the country, to make and enforce the regulations for the assessment and collection of the soft drink, proprietary, and other taxes affecting druggists, but they do know that a large part of their time and help is occupied in keeping records, making returns, and paying taxes collected without compensation to the Government of the United States. If the cost of living is high, the cost of regulation is certainly much higher. If Congress in its wisdom can not see its way clear to reducing taxation, it should, and we believe that it will at least change the form of taxation so as to bear less heavily upon retail druggists and all other taxpayers.

The sales tax.—The National Association of Retail Druggists is opposed to a sales tax as a substitute for the excess profits or any other tax unless it is made to apply uniformly and equitably to manufacturers, wholesalers, and all dealers in every line of business. It would not be fair or even possible to administer a sales tax which permitted a manufacturer to pass it on to a wholesaler, and a wholesaler to pass it on to the retailer, because the retailer could not pass it on to the public with a buyers' strike prevailing, and he could not himself absorb the pyramided tax.

FRANK T. STONE, *Chairman Legislative Committee.*

EXCISE TAXES.

LETTER FROM THE NATIONAL AUTOMOBILE CHAMBER OF COMMERCE.

DEAR MR. CONGRESSMAN: On May 16, 1921, the writer and Mr. George M. Graham, representing the National Automobile Chamber of Commerce, appeared before the Committee on Finance of the United States Senate and made statements on the subject of revision of internal tax laws and war emergency excise (stigma) taxes, to which you are respectfully referred. The statements appear in part 5 of the record on pages 217-245, inclusive.

I desire to supplement my statement with the following:

According to Prof. David Friday, the investment capacity of the United States, that is to say, the country's savings for the year 1913, amounted to \$6,500,000,000. This may be regarded as a fair average of the normal investment capacity uninfluenced

by war conditions. It is obvious that the money necessary to extract and transport our natural resources and change them into such forms as reach the ultimate consumer must come from the general savings fund of the Nation. It must be borne in mind that the Federal taxation burden of 1913 was approximately \$1,000,000,000.

It is my opinion, concurred in by eminent authority, that the present investment capacity of the Nation will be reduced to the extent that present Federal taxation burden exceeds the Federal taxation burden for the year 1913. There is strong reason to believe that the investment capacity of the Nation for 1921 would not exceed the investment capacity of the Nation for 1913, assuming the Federal taxation burden to be the same in both years.

On the contrary, it is indicated that Congress proposes to raise by Federal taxation and spend from four to five billion dollars, or an excess over 1913 of from three to four billion dollars. This would reduce the investment capacity of the Nation for 1921 to the extent of from three to four billion dollars, and I hold that this country can not prosper and develop as it should on an investment capacity, or general savings fund, of from \$3,500,000,000 to \$4,500,000,000. The fact should not be overlooked that the value of the dollar at the present time is not anywhere near equal to the value of the dollar in 1913.

Consideration should also be had of the fact that in 1913 our investment capacity was supplemented by foreign capital available for investment in the development of natural resources of the United States. There is no foreign capital available for investment in the United States at the present time, therefore we are almost solely dependent upon our general savings fund for such development as is necessary to bring about and maintain prosperity. This can not be done until Government takes its heavy hand off of the people of this country and lightens their taxation burdens.

No matter how drastic the steps may be, necessary to accomplish this result, such steps will be required before we can hope for the achievement of normal and continued prosperity. The people are liquidating and deflating their expenses. The Government must do likewise, or there will be no prosperity.

C. C. HANCH, *Chairman Taxation Committee.*

ATHLETIC GOODS.

J. W. CURTIS, PRESIDENT A. G. SPAULDING & CO.

Mr. CURTIS. Mr. Chairman and gentlemen, I represent the athletic goods manufacturers and am anxious to say a few words in that connection. I have already appeared before the Senate Finance Committee, and what I have to say in a very few minutes now is something in addition to that, because I feel that, unknowingly, our industry has been classed among the luxuries, and I am led to believe that, because the tax we pay is twice that of the jewelers, over three times that on chewing gum, and two and one-half times that on cosmetics, hair dyes, and talcum powder, and the bulk of it falls upon the American boy.

Mr. FREAR. What section is that?

Mr. CURTIS. Nine hundred, section 5. I estimate from figures given me by the Internal Revenue Bureau that of the total amount collected under that section, which includes, besides the goods I represent, fishing tackle, billiard tables, pool tables, and various games, we certainly pay 75 per cent of the revenue collected, and that revenue in the year ended June 30, 1921, was just a trifle under \$3,000,000.

The CHAIRMAN. What articles do you manufacture?

Mr. CURTIS. Ice and roller skates, baseball goods, golf goods, tennis goods, athletic uniforms, footballs, basket balls, and everything of that kind.

Mr. GREEN. You say you pay it. Whom do you think pays it?

Mr. CURTIS. The consumer pays it, of course.

Another thing that was brought out at the Senate hearing was this: Senator Penrose seemed to have some doubt as to whether, if a tax of this kind were remitted, the consumers would receive the benefit of it, and I explained to him in a small measure, but not perhaps as clearly as I should, that in all our trade catalogues—and this, mind you, is something that the boy or the individual purchaser does not know about when he buys the goods—the tax is paid by the manufacturer when he sells it to the retail dealer or to the jobber.

Mr. HAWLEY. You mean it is added?

Mr. CURTIS. Yes, sir. For instance, in our catalogue, the trade price of a certain article may be \$1. That is put down as \$1. Underneath that is put the war tax, 10 cents, and the two are added together, making the price of \$1.10. There is no concealment, there is no equivocation. That simply means that if this tax were remitted and wiped out, the goods will go to the dealer at the price we have them tagged at; the 10 per cent is absolutely wiped off.

Mr. HAWLEY. I suppose there is no purpose by arranging it in that way to make the tax unpopular?

Mr. CURTIS. No. We hope it may be remitted. We were taxed during the war 3 per cent, but the tax bill that went into effect in 1919, after the war was over, raised that to 10 per cent.

Mr. GARNER. If you could get Mr. Tilson and a few other Republicans to join with the Democrats, we would strike this out. I do not know how many votes you can get among these heathens over here.

Mr. TILSON. How large a percentage of this comes from golf?

Mr. CURTIS. I figure that from 25 per cent to 30 per cent of it comes from golf.

Mr. HOUGHTON. What percentage would a boy have to pay on golf goods?

Mr. CURTIS. On golf, I frankly confess, as far as golf is concerned, my argument is not as strong as it is on the other sports.

Mr. HOUGHTON. Neither is it on billiard tables.

Mr. CURTIS. We have nothing to do with those, nor with pool tables.

Mr. TILSON. It is on the other 75 per cent?

Mr. CURTIS. Seventy-five per cent. When you talk about athletic goods being luxuries, the men in the Government schools at West Point and Annapolis are required to take part in sports and games. It is not a question of any option on their part. We furnish the textbooks for that part of the curriculum, and those textbooks are the baseballs, footballs, basket balls, and articles of that kind, and it is just as important that their physical welfare should be looked after as that they should know the science of navigation, and it is so considered by the authorities.

Mr. FREAR. What is your idea, Mr. Curtis, of the comparison between the tax of 10 per cent on private yachts, the levying of which has been objected to, and the tax on the sporting goods that you sell? How do you think that compares with your sports?

Mr. CURTIS. Taxes on athletic goods come out of the physical welfare and happiness of the American boy.

Mr. FREAR. But you say that 25 per cent of the tax is collected on golf goods.

Mr. CURTIS. At the same time, I think golf has done a lot for the physical welfare of older people.

Mr. FREAR. They should be made to pay it, should they not?

Mr. CURTIS. I admit that; they can better afford it.

Mr. FREAR. Of course we have got to raise the money.

Mr. CURTIS. I am perfectly frank about that. I realize how necessary it is.

Mr. FREAR. If you take it off here, would you place it on something else? That is a difficult question, and it is one that faces everyone of us on this committee.

Mr. CURTIS. I know it does, but I believe that this committee and all you gentlemen believe in rectifying what is an injustice, and I submit that an injustice was done the American boy when that tax was put on.

Mr. TILSON. If we put the same tax on everybody else that we put on you, you would not object?

Mr. CURTIS. I have no objection to bearing my burden in company with everybody else.

Mr. TILSON. What you object to is being discriminated against?

Mr. CURTIS. I think I am very much discriminated against.

Mr. HAWLEY. Has it impaired your sales?

Mr. CURTIS. It has on those goods that we are most interested in. The golf sales have not been hurt. There has been a tremendous increase in the playing of golf over the country anyway, and those sales have been increased. On a number of items, such as baseball goods, our sales have decreased.

Mr. FREAR. On billiard and pool tables the tax is 10 per cent, is it not?

Mr. CURTIS. I am not arguing that. We do not make them.

Mr. FREAR. But that question was raised by Mr. Chandler. Then you have your fishing rods, and everything of that kind, and foot-balls.

Mr. CURTIS. I do not want to bore you, but just let me give you a statement by President Angell, of Yale. He said, in an address to the alumni:

I believe there is an obligation on every college to see that every boy in it gets the very best type of physical education, along with his mental and moral education; that he be given every possible opportunity to develop the strongest possible physique; that he be taken into the sports and games, and if he does not want to play, that he be induced to play, in order that he may get the joy of playing and get the moral and physical value that comes out of a whole-hearted participation in American college sports.

Mr. FREAR. That is to say, he would make boys play leapfrog and go in swimming, but they would not have to buy golf balls?

Mr. CURTIS. In answer to that, the men at Annapolis are examined, and they are given the sport they need and must have. The only client I represent here is the American boy.

Mr. GARNER. You think that the American Government, which has set the standard for athletics at two schools, ought to be estopped from asking that the others should not adopt the same standard?

Mr. CURTIS. I think so, sir.

Mr. HOUGHTON. Could a line be drawn between the goods used by the boys and those used by associations and clubs that are organized for the purpose of profit, such as the big baseball leagues?

Mr. CURTIS. The big baseball leagues use a very small proportion of our goods that are used, and in many cases they receive gifts of goods for the sake of the prestige that their use of them gives the manufacturer. They represent, at the outside, perhaps 10 per cent. The youngster represents 90 per cent. The older ones can not play baseball; they can not play football; they can not go into the active games.

Mr. FREAR. Did you say that you gave away baseballs to the large leagues?

Mr. CURTIS. No, sir.

CANDY AND CONFECTIONERY.

HUBERT B. FULLER, CLEVELAND, OHIO, REPRESENTING THE NATIONAL CONFECTIONERS' ASSOCIATION.

Mr. FULLER. My name is Hubert B. Fuller, of Cleveland, Ohio, where I am a practicing attorney. I have been for many years connected with the confectionery industry as attorney for the Ohio Manufacturing Confectioners, the Manufacturing Confectioners of Cleveland, and in this instance I represent the National Confectioners' Association, which is the national organization comprising 75 per cent of the manufacturing confectioners of the country. When I say 75 per cent I refer, of course, to 75 per cent of the bulk of production.

We desire very briefly to call your attention to the manufacturer's excise tax on candy, under section 900, an excise tax of 5 per cent. We submit that candy is not such an article of luxury as is usually contemplated for the imposition of an excise tax. At least 50 per cent of the candy production in the United States is absorbed or purchased by children, and is sold by the retailer in units of 1 cent, 5 cents, and 10 cents. Eighty per cent of the candy manufactured in the United States is sold at the manufacturer's price of 20 cents and under per pound.

Mr. OLDFIELD. How does that compare with the prewar price of candy?

Mr. FREAR. Did you say 20 cents per pound?

Mr. FULLER. Yes, sir.

Mr. FREAR. Where is that?

Mr. FULLER. That is the manufacturer's price, Mr. Frear.

Mr. FREAR. Then when the retailer charges 80 cents per pound is he charging 300 per cent over the manufacturer's price?

Mr. FULLER. Now then, Mr. Frear, I will answer that by saying that that high-priced candy, which I assume you gentlemen have in mind, and I know you have it in mind from the discussions I have had with individual members, that high-priced candy, which retails at \$1, \$1.50 and upwards per pound, constitutes only 10 per cent of the bulk of the candy manufactured in the United States.

Mr. OLDFIELD. You are talking about cheap candy?

Mr. FULLER. I am talking about all candy and I am trying to classify it so as to differentiate it.

Mr. YOUNG. Would you expect to take the tax off of that candy which might be regarded as a luxury?

Mr. FULLER. Would you consider it fair for me to answer that by saying that the national association is comprised of the manu-

facturers of all grades of candy, and that I think the committee, possibly, had better answer that question than to ask me to answer it? Would that be a fair answer?

Mr. YOUNG. Won't you give us the basis on which we can consider that matter?

Mr. FULLER. Very gladly, sir.

Mr. YOUNG. As to the prices at which the candy is sold, and the quantities, and then, if you can, some little information as to what those various kinds are retailed for.

Mr. FULLER. I will be glad to give you all of that information so far as I can. I regret very much, gentlemen, that I have not here at this meeting some representatives of the candy manufacturers of the country, as I had expected to have, but, as you realize, the notice which we received, and the uncertainty of the assignments, made that impossible this morning, and I thought I ought to request an assignment so as not to be crowded out at the end of the hearings. But I will have some of those gentlemen here to-day or to-morrow, gentlemen from Cincinnati, Chicago, St. Louis, New York, New Haven, and other representative points, and I will file a brief that will cover any points on which this committee desires information. But I think I can answer all of your questions myself.

Mr. LONGWORTH. What proportion of your cost in making cheap candy is the sugar?

Mr. FULLER. I think the answer to that, Mr. Longworth, is that normally sugar is 50 per cent of candy. Now, the other 50 per cent of candy comprises a variety of things, depending on the character of the candy which you are manufacturing.

Mr. LONGWORTH. I am talking about cheap candy.

Mr. OLDFIELD. Stick candy, for example.

Mr. LONGWORTH. How much has the price of sugar gone down in the last two years?

Mr. FULLER. The other day I know of a shipment of Java sugar which sold at about 5 cents, on a breach of contract, but I think right now $7\frac{1}{2}$ cents is the wholesale market on refined sugar.

Mr. LONGWORTH. What was it two years ago?

Mr. FULLER. Well, I do know that candy manufacturers, Mr. Longworth, lost a great deal of money and many were forced into bankruptcy, as a result of heavy 23-cent sugar contracts last summer.

Mr. LONGWORTH. Are you not making a great big profit at the present price of sugar?

Mr. FULLER. No, sir; and I will answer your question perfectly frankly. The average 10-year prewar profit on the manufacture of candy was 5 per cent. It is true, of course, that candy manufacturers had a successful period during the era of the war and that their profits were very considerably increased. The records of the Internal Revenue Bureau show that. That was not, however, peculiar to the candy industry; but may be said to have been of general application. Everybody was prosperous, even tramps were prosperous and gave up tramping. But conditions fell off beginning the 1st of last October or the 1st of November. It was as though you were walking along a plain and came upon a precipice. That is what happened in the candy industry. The candy manufacturers, in order to take care of these high-priced contracts which they had entered into under the fear of the sugar shortage last summer, were forced to dump their

candy on the market at any price they could get for it. You could go into the stores and buy even the package goods, to which the gentleman has referred, the standard package goods, manufactured in New England, in Boston, at much less than the cost of manufacture, because those men had to raise money with which to meet those sugar contracts, and had to raise money with which to meet the fourth or final instalment of the Federal taxes.

Mr. OLDFIELD. I do not think that is true of retail sales here.

Mr. FULLER. I was not in this town at that time.

Mr. LONGWORTH. We are not talking about retail sales, but we are talking about the 5 per cent manufacturer's tax. What is the cost of producing cheap candy at the present cost of sugar?

Mr. FULLER. Oh, Mr. Longworth—

Mr. YOUNG (interposing). For the record, I would like to have the chairman tell us what the wholesale price of sugar is now.

Mr. FULLER. Seven and one-half cents is the figure I quoted a moment ago.

Mr. LONGWORTH. That is a reduction over the price of a year ago.

Mr. FULLER. We were making sugar contracts a year ago at 23 cents.

Mr. LONGWORTH. That is about 70 per cent off. Let me ask you this at the start: Are you asking that candy be made an exception in these excise taxes? That is to say, do you favor an exemption for candy and favor these excise taxes on sporting goods, automobiles, jewelry, etc.?

Mr. FULLER. Mr. Longworth, in some ways, I do. We would feel that we should be taxed as other industries are taxed; that we pay the excess-profits tax and we pay the normal profits tax.

Mr. LONGWORTH. That is not an answer to the question. I want to know whether you want to be singled out as an industry and whether you think you have a better case, for instance, than any of those provided for in section 900 of the Tariff Act.

Mr. FULLER. We believe that we have; yes, sir; and if you will bear with me just 5 or 10 minutes, I hope I may satisfy the members of the committee that we have a better case; and that is based upon the fact that the great amount of candy, as I have stated before, is sold to children and to the poorer people.

Mr. LONGWORTH. How about sporting goods; how about baseball bats?

Mr. FULLER. I might say that would be true of baseball bats, but I hardly think it would be true of tennis rackets and polo instruments. I do not know that I know the technical names of them, Mr. Longworth.

Mr. LONGWORTH. Polo instruments is good.

Mr. FULLER. I prefer to use a generic term about those matters. The candy industry certainly can not be classed with those more profitable industries in which large, outstanding fortunes have been made, and to which many of these excise taxes are applied, and for a specific reference to them, without making any invidious comparison, I would suggest, for instance, the automobile industry or the jewelry industry. We would say, furthermore, that it would hardly seem to us, at least, to be equitable, even granting we are prejudiced, to tax a candy manufacturer on that which he sells and then let a person go into a restaurant and order broiled lobster or pâté de foie

gras or other highly expensive articles of food of that nature, which are not taxed.

As I have stated, the average prewar profit in the candy industry for 10 years was about 5 per cent in normal times, and we are back to normal times, if we are not back to subnormal times; in fact, we are. The average net profit by candy manufacturers on the lower priced candies sold by the manufacturers in pails and barrels, that being the container in which the manufacturer sells it and from which the retailer does it out to the consumer, has been only from one-fourth to one-half cent a pound, while on candy sold above 20 or 25 cents a pound—and still speaking of the cheaper grades of candy and not the more expensive grades that you have in mind—the average has been only from 1 cent to a cent and a half a pound. We feel, gentlemen, that the excise tax discriminates against the candy industry for the reason that there is no excise tax, for instance, on such articles with which we must sell in competition as cookies, fancy crackers, raisins, stuffed dates, salted nuts, marbles, tops, balloons, squawkers, and all those things which come in competition with this cheaper priced candy for the children's penny or dime; and after all, the children are the greatest shoppers in the world.

Mr. LONGWORTH. Pursuing your comparison a little further, of the average prewar profits, what is the volume of business to-day as compared with the prewar business?

Mr. FULLER. I think, Mr. Longworth, the pound production is greater than during the prewar period.

Mr. LONGWORTH. How much greater—about twice as much?

Mr. FULLER. No; I would not say that.

Mr. LONGWORTH. Or very nearly that?

Mr. FULLER. No; I would not say that.

Mr. LONGWORTH. Has there not been a very great increase in the production of candy since prohibition?

Mr. FULLER. Mr. Longworth, it was anticipated, and I think the committee had that in mind when this tax was imposed, that candy and soft drinks would be the beneficiaries of prohibition, but that has not been our experience. I think the beneficiaries of prohibition have been bootlegging and the cellar still. In northern Ohio—and I know you are familiar with conditions there—the grape growers are receiving prices for their grapes which they had never received during pre-prohibition days; but those grapes are not going into grape juice. They are being sold by the carloads and shipped to Lorain and Akron and Cleveland and Toledo, where they are being bought by the carload and smaller quantities by people, mostly of foreign extraction, who make their own wine in their own cellars.

The CHAIRMAN. Mr. Fuller, is it not true that in the last three or four months sugar has not sold at wholesale above 7½ cents a pound?

Mr. FULLER. I think that is true.

The CHAIRMAN. And that there has been practically no change, or if any change in the retail selling value of candy, it is higher than it was at that time.

Mr. FULLER. Mr. Fordney, I do not like to dispute that statement, for the reason that I do not live in Washington. I come here quite frequently, but I am not familiar with the prices in the retail candy stores here in Washington. I am familiar with them in other cities.

The CHAIRMAN. Mr. Fuller, I am not intimating that the manufacturer is responsible for that, but is it not true that the prices of candy to-day are equally as high as they were last year, and that sugar is selling for 70 per cent below what it sold for a year ago.

Mr. FULLER. I will say, Mr. Fordney, that some of the retail stores, especially those dealing with the higher priced candies, have not reduced their prices.

The CHAIRMAN. Mr. Fuller, when we had the emergency tariff bill up for consideration, we had laid before us an invoice of the sale of two carloads or three carloads of sheep in Chicago that netted the farmer 32 cents a head, and the very day that I examined that invoice, I paid, over here in the House restaurant, 65 cents for two little lamb chops; that is as much for one lamb chop as the farmer received for one of his sheep delivered in Chicago. Now, is it not true that retail prices are abnormally high in proportion to the cost of the raw material and the labor that enters into the cost of production.

Mr. FULLER. Mr. Fordney, did I make it clear to you when I announced my representation, that I represent the manufacturing confectioners?

Mr. YOUNG. Yes; that was made clear.

Mr. FULLER. I just want to say that I do not represent the retail confectioners, and on the other hand, I do not feel I ought to—shall I say, be asked to criticize them?

The CHAIRMAN. I somewhat agree with you that I should not try to get from you—

Mr. FULLER. Oh; you are always very gracious, Mr. Fordney, and I trust you appreciate the position I am in.

Mr. YOUNG. In order that we might perhaps put on a graduated tax or possibly exempt some of the very cheap candy, will you not put in your brief something to show what it costs to make good, choice, candy. I mean candy made out of good sugar, wholesome nuts, and all the other materials wholesome, so that we can, perhaps, arrive at something which will be a proper tax for retailers who persist in charging war prices. There are some stores right here in Washington that are charging more now for candy than during the war; I know of at least one.

Mr. FULLER. I will be very glad to do that. I would love to write a brief and submit it to you, if I might have some assurance that you gentlemen in the midst of your many engagements, could find the time to read it.

Mr. YOUNG. If you will file a brief, I can assure you it will be read.

Mr. FULLER. I recall that when I first knew Mr. Tilson, which was 20 years ago, and bought candy on Chapel Street, in New Haven, candy was a different proposition from what it is now. You will realize that I am not here to defend anybody, and I am not here representing the retail confectioners, who have an association of their own, but of course, when you are buying this high-priced candy, you are buying an awful lot besides candy. Mr. Fordney and Mr. Longworth have referred to the low cost of sugar, and I have stated that sugar, all things considered, is about one-half of the candy, yet on the other hand, many nuts are to-day selling at \$1 a pound—pecans, for instance—and you will find in those very expensive grades of candy to which you gentlemen doubtless are referring, that you have these very high-priced nuts. They have been running from \$1 to

\$1.50 a pound and upward to the manufacturer. You also have candied fruits which are very expensive, averaging over 75 cents a pound. Now, those candies are made in small lots. They are hand-dipped candies as distinguished from machine-dipped candies. I do not know whether any of you gentlemen have ever been through a candy factory. It is an intensely interesting process from the standpoint of the layman.

Mr. YOUNG. The hand-dipped candy may look a little better, but it is not necessarily any more wholesome or better tasting than candy dipped by a machine.

Mr. FULLER. It is exactly the same thing. It has exactly the same ingredients, and exactly the same purity. It is possibly dipped just a little more evenly and perhaps a little more smoothly by hand, and the little curlicues on top are a little different, perhaps.

Mr. YOUNG. If a man insists on getting that better candy, should he not pay a tax on it? It is certainly a luxury because it is no better from the standpoint of quality and simply may look a little better.

Mr. FULLER. I think I would agree with that, and in buying that candy, you must remember that you are paying for the reputation. You are paying F Street rentals, you are paying Michigan Boulevard rentals, or Euclid Avenue rentals, or Vine Street or Chapel Street rentals.

Mr. TILSON. You understand, Mr. Fuller, that you are laboring under a disadvantage due to the fact that a certain hostility has been created against the candy business by the very high prices they have maintained for the candy at retail, even though the price of sugar has gone down and possibly your wholesale prices have gone down.

Mr. FULLER. Mr. Tilson, I appreciate the correctness of what you have said, and that is the principal reason and the principal justification I have for coming before this committee; that is, to endeavor to eradicate what we believe is a misconception on the part of the committee as to the true situation in the candy industry.

Mr. TILSON. And not only on the part of the committee but everybody else. Their only point of contact with candy is at the retail stores.

Mr. FULLER. Exactly.

Mr. TILSON. And that is the only place we come in contact with it. We do not know anything about the wholesale price, but we do know the price our children pay for it at the retail stores.

Mr. YOUNG. Following out Col. Tilson's suggestion, could you show whether the manufacturers' prices have been reduced or not?

Mr. FULLER. Yes; I was just going to answer that.

Mr. YOUNG. Either now or in your brief?

Mr. FULLER. On a comparison made with 50 representative pieces of ordinary-priced candy—that is, the cheaper grades, not this expensive candy—we find that the manufacturers' selling price this spring, as compared with 1920, is 43 per cent reduced. Now, bearing in mind that a 50 per cent reduction, of course, is the equivalent of a 100 per cent increase, I think we answer that question.

Mr. TILSON. Your material has gone down 50 per cent, but, of course, your labor and other expenses have not gone down 50 per cent.

Mr. FULLER. No, sir; and then, of course, with decreased production, and there has been a very serious decrease in production since

the peak of last summer, the relative overhead, of course, is higher. But I do not think I ought to take the time of the committee, in all fairness, to discuss such fundamentals.

The CHAIRMAN. Mr. Fuller, there has just been a call of the House, and I will ask you to be as brief as you can in concluding, and then file such briefs as you may care to file with the committee.

Mr. FULLER. Mr. Fordney, I would like to talk to you for about five minutes, and could I have the privilege of resuming at 2 o'clock?

The CHAIRMAN. Yes, sir.

Mr. FULLER. I have learned to be brief in speaking to courts, and I appreciate your interest and would like to be allowed to conclude then.

Mr. YOUNG. Mr. Fuller, in connection with the data I asked you to put in the record, would you mind giving us, if you can, some indication of what proportion of candy is what we might call machine-made candy and what is entirely hand-made candy?

Mr. FULLER. Yes, sir.

When we recessed for luncheon, I was speaking of the large number of items which are sold in competition with the lower-priced candy, and I was emphasizing the fact that the great bulk of candy, as you will recall, is sold in penny and 5 and 10 cent units.

Mr. GARNER. What section is it that you are speaking of now?

Mr. FULLER. The excise tax under section 900, Mr. Garner.

If the consumers' tax on soda water and ice cream is repealed, as has been suggested by the Secretary of the Treasury, then ice-cream and soda water and ice cream cones, having no specific taxes, compete with tax-paying candy. Coconut macaroons and coconut tea biscuits when made by bakers pay no tax, but when made by manufacturing confectioners must pay an excise tax of 5 per cent; similarly articles like marsh mallows coated with chocolate.

Mr. GARNER. Mr. Fuller, you are assuming now in your argument that they are going to repeal the soda-water tax, as I understand it.

Mr. FULLER. I am assuming that only unofficially.

Mr. GARNER. I was just wondering where you got the impression that that tax would be repealed, and that the tax on candy, for instance, would not be repealed.

Mr. FULLER. I gather the impression with reference to the repeal of the soda-water taxes from newspaper reports which purport to quote the officials of the Treasury Department.

Mr. GARNER. Then, if I understand you, your assumption as to the policy of the Congress in repealing the soda-water tax is based upon the recommendation of the Treasury Department?

Mr. FULLER. I think that would be the correct answer; yes, sir.

Mr. GARNER. Has any recommendation come from the Treasury Department for a repeal of the soda-water tax?

The CHAIRMAN. Not that I have heard of.

Mr. GARNER. I do not think so, and therefore I would like to get the basis of the impression throughout the country that one excise tax, such as the soda-water tax, is to be selected for repeal, and other excise taxes, which Congress thought were proper to levy during the war, are to be left in the law.

Mr. FULLER. Mr. Garner, it is my distinct impression that in the last annual report of the Secretary of the Treasury in reference to internal tax legislation, the suggestion is made that certain taxes be

repealed, and those taxes have been generally referred to as nuisance taxes and have been enumerated as including the very ones I refer to, namely, the soda-fountain taxes.

Mr. GARNER. Would not your tax come in under the head of a nuisance tax also?

Mr. FULLER. By all means. That is just what we contend.

Mr. YOUNG. Did not this committee at one time report out a bill to repeal those?

Mr. CRISP. And it was passed through the House.

Mr. YOUNG. Yes; and it might be upon that action that he bases his assumption.

The CHAIRMAN. We reported out a bill not to repeal section 900 but 904 or 908.

Mr. GARNER. No; I will tell you where you got your impression. On the 11th day of April, the day that Congress was convened, a bill (No. 215) was introduced in Congress by the gentleman from Ohio, Mr. Longworth, in which he provided for the repeal of the soda-water tax and left the other taxes in the law as it exists to-day. That is how the impression got out, and a very correct one, too, because Mr. Longworth introduced that bill on the convening of the Congress, and I think it is admitted by all that he was doing that in response to what the Treasury Department—the Republican Treasury Department—had concluded was the proper thing to do.

Mr. FULLER. Now, Mr. Garner, I think I can answer your question because a gentleman has very kindly handed me the memorandum to which I referred. On April 30, 1921, Mr. Secretary Mellon addressed a letter to Mr. Fordney, the chairman of this committee, and that letter has been printed as a public document, and on page 4, designated as paragraph 3, he states:

Retain the miscellaneous specific-sales taxes and excise taxes, including the transportation tax, the tobacco taxes, the tax on admissions, and the capital-stock tax, but repeal the minor "nuisance" taxes, such as the taxes on fountain drinks and the miscellaneous taxes levied under section 904 of the revenue act, which are difficult to enforce, relatively unproductive, and unnecessarily vexatious.

That is specifically what I am referring to

The CHAIRMAN. That did not refer to candy.

Mr. FULLER. No, sir.

The CHAIRMAN. Candy is in section 900.

Mr. FULLER. Yes, sir. I understood Mr. Garner's question to be: Where did I get the impression that anybody was recommending the repeal of the soda-fountain taxes?

Mr. GARNER. To the exclusion of the other taxes.

Mr. FULLER. Yes, sir; and that is the answer.

Mr. GARNER. I was just wondering, Mr. Fuller, why a soda-water tax would not be just as legitimate in time of peace as a tax on chewing gum or candy or various other things of that kind that might be enumerated that are now in the present law.

Mr. FULLER. The officials of the Treasury Department, I believe, agree with that idea, but say that it is purely a question of enforcement and securing the payment of the taxes.

I wish to read just a couple of paragraphs from a letter which I have received from a prominent candy manufacturer of Denver, Colo., to the point that I was speaking on:

If you could step into a store here in town you would find on display in competition with candy, toy rubber balloons, marbles, toys, crayolas, paints, and a vast array of

other items that are on display in competition with candy. You will also find articles of pastry turned out by bakeries which take the place of our 5 and 10 cent bars, being sold for 5 or 10 cents, as the case may be, and which are not taxed.

In our territory we find two of our largest wholesale bakeries or cracker factories turning out chocolate-covered marshmallow pieces having a cheap cookie or cake as a base, which are wrapped up in individual wrappers with a band around each package showing the name and the net weight and the price exactly like our 5 and 10 cent bars are put up. To give you an idea of the volume of business that is being done on this article and the extent to which it comes in competition with our 5 and 10 cent bars, I learned that a company located in Denver recently shipped a straight carload of these so-called 5-cent chocolate bon bons to a wholesaler at Amarillo, Tex. This is a new departure for the cracker factories, and if they follow up this practice they can easily put the candy factories out of business so far as 5 and 10 cent bars are concerned. They can sell at our exact cost and still make 5 per cent profit for themselves.

These goods are on display in pool rooms, soft-drink parlors, candy stores, school-supply stores, and other places where young people or children congregate. One of our local manufacturers has recently begun the manufacture of cream puffs, which they retail at three for 5 cents or six for a dime. Please remember that our 5 and 10 cent bars are used by young people especially as a light lunch between meals. When they can buy a half dozen cream puffs for 10 cents, do you think they will spend money for our 10-cent bars?

If you think it will do any good I will go out and buy an original package of toy balloons and the other items mentioned in connection therewith, as well as an original package of chocolate-marshmallow bonbons and these cream puffs that are turned out by cracker factories, and send this package to you by express. If you will open it up and spread it out on your desk you will readily see how unfair and discriminatory this tax has become.

It had been my intention, gentlemen, but circumstances manifestly would not permit that, to erect here before you a counter such as you see in the small neighborhood stores, the general country stores, and the 5 and 10 cent stores, because that is where the great bulk of candy is sold, and I would put in that counter these various pieces of candy, in the form in which they are sold, bulk goods, marked as 120 count goods, three for a penny, two for a penny, and so on.

Mr. FREAR. You are urging that they be taxed the same as on the candy, as I understand?

Mr. FULLER. I would say, conversely, Mr. Frear, we are urging that we be not taxed when we are forced to sell our articles in competition with those articles; and I would put in that counter tops, toy balloons, squawkers, marbles, glass agates—

Mr. FREAR (interposing). Baseballs and bats?

Mr. FULLER. Yes, sir; and these other things that sell for a penny or a nickel or a dime. I wish, gentlemen, we could take a child into a store in your presence and give that child a nickel and you could see the child consume half an hour or an hour of the time of the proprietor of that store shopping. Gentlemen, the child is the champion shopper of the country, and he will determine then whether he is getting a penny's worth or a nickel's worth or a dime's worth of candy, or whether he is going to go out and buy something that is not paying any of these taxes, such as the tops or the squawkers or the marbles or these other things.

I have already referred to the fact that many articles which are manufactured by candy manufacturers pay a tax, while the same articles can be manufactured and sold by bakers and cracker manufacturers without paying a tax. Furthermore, the United States District Court of Massachusetts has just held that the sweet chocolate bars—the small sweet chocolate bars with which you are familiar—are not a candy and that therefore they are not subject to this 5 per

cent manufacturers' tax, and yet they are sold in all these stores and at news stands and on the trains, etc., in direct competition with candy.

Mr. FREAR. Would it help matters if we taxed them?

Mr. FULLER. It would help matters to this extent, Mr. Frear, it would put everybody on the same competitive level; but it would not be fair for us to come here, I think, and suggest that you tax other items, because of the manifest criticism of an industry.

Mr. FREAR. That is not the question. We have got to raise the taxes from some source and we want to find out what your recommendations are.

Mr. YOUNG. Your recommendation is to take it off of your product.

Mr. FULLER. Yes, sir.

Mr. YOUNG. And if not, then you think it ought to be put on competitive products.

Mr. FULLER. I do not like to say that, Mr. Young. I would much rather the committee would draw its own conclusions.

Before the recess for luncheon, the question was raised about the retail prices, and I think I should have emphasized the fact that while sugar has decreased in price, as Mr. Longworth has so forcibly pointed out, yet rents have very materially increased. I know of one instance of a concern which sells in various towns throughout the country through chain stores, and I know that it so happens this year that 10 of their leases run out, and in every instance they are offered a renewal of their lease at a full 100 per cent increase.

One hundred and twenty count goods—120-count goods means a box containing 120 pieces and sold at retail as penny units. One hundred and twenty count goods which were sold by manufacturers at 70 or 75 cents a box a year ago and weighed about 2 pounds are to-day sold by manufacturers at 60 cents a pound, and because of the increase of the size of the unit and the weight of the unit those boxes are now weighing about 4 or 5 pounds. Chocolates which were sold by manufacturers at 50 cents a pound a year ago and at retail for 80 cents a pound, are to-day sold by the manufacturers at 25 cents a pound and are retailing at 40 cents a pound. I do not undertake to say that that is true in Washington, gentlemen. Chocolate drops which are sold by the manufacturers to-day in 30-pound pails at 12½ cents a pound are to-day selling in 5 and 10 cent stores at 20 cents a pound, which would be a normal profit for the retailer or the intervening jobber, and on those goods the candy manufacturer is not making in excess of one-half cent a pound profit.

Mr. LONGWORTH. Let me ask you this question: Suppose we relieved you from the 5 per cent tax, how much less would they sell for?

Mr. FULLER. I would have to figure that out with a candy manufacturer. That question, Mr. Longworth, will appear in the record, and as I understand it, I have your permission to file a short brief, and I will be very glad to answer that question then. Will that be satisfactory, Mr. Longworth?

Mr. FREAR. There was a witness before the committee who answered Mr. Longworth in reference to a similar question about cigars to the effect that with a reduction, I think it was, of one-tenth of 1 cent on each cigar, duty or excise tax, he would raise by 2 cents the price of the cigar.

Mr. LONGWORTH. That was based on an increase.

Mr. FREAR. Yes; but, conversely, that carries out the same proposition.

Mr. LONGWORTH. You would not be prepared to say you would take off 5 per cent?

Mr. FULLER. I am not prepared to say we would not, Mr. Longworth. I think I ought to have the benefit of the information of a practical candy manufacturer in answering that question.

The CHAIRMAN. Mr. Fuller, you will have to be very brief, because we have several witnesses to hear this afternoon.

Mr. FULLER. All right, sir; I will conclude in just a moment, and then I will file a short brief.

I call your attention again to what I have been trying to accentuate, that no other industry subject to the excise tax is subject to quite the competitive conditions of the candy industry. We have had an overproduction in candy which has been due to the abnormal expansion, due to the higher profits in the war period, and due to the fact that those who have heretofore been engaged—been engaged in, shall I say, the spirits industry—have gone into these lines as a means of investing capital until we have, I suppose, a productive capacity of nearly double the normal consuming capacity of the United States.

One other point I wish to emphasize is that there are engaged in the candy manufacturing business—one foreign language newspaper has stated that there are 30,000 Greeks to-day engaged in the manufacture of candy. They are what we call manufacturing retailers. They make the candy and sell directly to the consumers. They keep no records and do not manufacture under the high overhead costs or the ideal sanitary conditions that mark the candy industry as it is conducted by the people, for instance, whom I represent, and, of course, they either do not pay the tax or else they pay the tax on a very small proportion of their sales in spite of the efforts of the officers of the Internal Revenue Department to collect these taxes.

In deference to the shortness of the time, and the many gentlemen who wish to appear, I just wish to again emphasize the fact that 80 per cent of the candy is sold by candy manufacturers and goes out in 1 cent, 5-cent, and 10-cent units, and is sold by the manufacturers at 20 cents or under a pound. This high-priced candy, with which you gentlemen are familiar, constitutes but 10 per cent of the industry.

Now, Mr. Chairman, may I ask within what time I may be permitted to file a short brief?

The CHAIRMAN. Any time this week, I would say.

Mr. FULLER. I thank you, gentlemen, very much for the courteous attention you have given me. I have appreciated the questions you have asked because I think they have indicated an interest on your part in my remarks.

BRIEF OF THE NATIONAL CONFECTIONERS' ASSOCIATION.

1. There is a very general impression that the price of sugar should control the price of candy and that candy prices to-day should reflect absolutely the 70 per cent reduction in refined sugar prices since 1920. This impression is incorrect, as the cost of sugar constitutes only a small per cent of the cost of producing candy. The ratio of

sugar cost to total cost of production is manifestly larger in the less expensive grades of candy. Eighty per cent of the candy produced in the United States is sold by the manufacturer at 20 cents and under per pound. On this candy sugar represents about 15 per cent of the total manufacturer's cost. On higher priced candy the sugar percentage cost is naturally less. It must furthermore be borne in mind that the cost of packages or containers, labor, and high overhead expenses constitute a very considerable proportion of the total cost of the higher priced candies.

2. An erroneous impression prevails that the confectionery industry is the chief beneficiary of prohibition. This, however, is not correct. All industries have profited by prohibition due to the fact that money hitherto spent for liquor has been available for expenditure in other lines. Accurate statistics carefully collected by the National Confectioners' Association show that industries have prospered in the following order: (1) Savings banks; (2) the soft-drink industry; (3) the ice-cream industry; (4) the theaters and moving-picture shows; and (5) the confectionery industry. The increase in candy production to the best of our information has been approximately 25 per cent, due to the natural expansion of the industry rather than to prohibition.

3. Candy is sold by manufacturers at prices ranging upwards from 12½ cents per pound. Eighty per cent of all candy produced is sold by the manufacturer at 20 cents or under per pound. Ten per cent is sold by the manufacturer at prices ranging from 20 cents to 80 cents per pound. The remaining 10 per cent constitutes the higher priced candies. Candy sold by the manufacturer at 20 cents and under per pound is sold by the retailer to the consumer at from 25 cents to 40 cents per pound. These candies for the most part are manufactured by machinery.

4. The removal of the 5 per cent manufacturer's excise tax on candy will have the following result. Some candy to-day is sold at less than cost in order to increase production and thus reduce overhead costs. On such candy the manufacturer by the removal of the excise tax can eliminate his losses. On other goods prices would be reduced to the amount of the tax thus removed or the manufacturer would be able, without change in price to the jobber or retailer, to give larger pieces or quantities for a penny, nickel, or dime. The savings in tax would be reflected either in reduced prices or in added quantity or material.

5. Many articles made from exactly the same ingredients pay an excise tax when manufactured by confectioners but no specific taxes when manufactured by cake and cracker manufacturers. Such articles are fig-filled Newtons, vanilla wafers dipped in chocolate, sugar wafers, wafers covered with nuts and dipped with chocolate, etc. As an example of the competition which we are suffering from this class of products we may cite raisins packed in 2-ounce packages to retail to the consumer at 5 cents per package. The demand for these is enormous and is stimulated by a Nation-wide advertising campaign on the part of the raisin growers. Thirty carloads of these raisins put up in these small 5-cent packages have been shipped into New York City within the past few days. Paying no tax, either manufacturer's or consumer's, they are sold in direct competition with tax-paying confectionery. Yet a candy manufacturer must pay this excise tax if he takes these same raisins, dips them in chocolate, and offers them for sale. We do not advocate or urge a tax on these articles, but we protest against the competitive disadvantage under which we are placed on account of the excise tax on candy. This is having a serious effect upon our business.

6. The great bulk of candy sales consists of penny goods and candy sold in sales units of 1 cent, 5 cents, and 10 cents. The prices at which such candy is sold can not be advanced. The sizes of the different kinds of candy can not be reduced and successfully compete with articles which are not taxed. The cost to the consumer is increased by the intervening profits of the jobber and the retailer before the candy reaches the ultimate consumer.

7. No other industry which is subject to an excise tax is confronted with the competitive conditions which must be met by the candy manufacturers, as the above statements clearly demonstrate.

8. The excise tax can not be passed on to the consumer without seriously decreasing the demand for candy. Whatever increases prices under present conditions decreases the demand.

9. The excise tax can not be absorbed by the retailer or the jobber, because it would reduce or destroy the retailer's or jobber's rightful profits, and they will not sell the candy if they can not make a profit thereon.

10. Under these conditions the excise tax can not be absorbed by the manufacturer without the danger of losing his entire profit, which, as stated above, even under normal conditions, is very small. If he absorbed the excise tax, it would completely wipe out his profit.

11. The excise tax is not a tax on profits, it is a tax on doing business, and it must be paid whether the candy manufacturer makes a profit or not. Under present con-

ditions this tax is being paid by many candy manufacturers out of their actually invested capital.

12. During the first six months of the calendar year 1921 the Treasury Department has received from the candy excise tax approximately \$3,000,000 less than were received during the same six months of 1920, a reduction of about one-third. These figures emphasize the extreme business depression in the candy industry. There has been greater percentages of failures in the candy manufacturing industry so far during 1921 than at any time during the past five years.

13. The candy excise tax is, furthermore, discriminatory and detrimental to candy manufacturers, because it gives an advantage to certain classes of manufacturing retailers, who avoid paying either as a whole or in part the candy excise tax on their sales. It is estimated that there are 30,000 Greeks and other nationalities engaged in the candy manufacturing business in the United States who sell directly to the consumers. Many of these retail manufacturers keep no records and can not be checked up by the Government authorities in reference to paying the excise tax, and yet they constitute a constantly increasing element of competition in the industry which must be met by candy manufacturers who keep accurate records, have a high overhead expense, and conduct their business under sanitary conditions.

14. As stated herein, it should be kept in mind that the great bulk of the candy is sold through small retail distributors, such as drug stores, grocery stores, general stores, 5 and 10 cent stores, and retail confectioners situated in cities, small towns, and rural districts. These distributors do not manufacture the candy which they sell. Their competition, especially in the cities, small towns, and rural districts, is from the foreign element which has entered the candy business and in many cases is manufacturing candy under insanitary conditions and selling at very low prices directly to the consumers. These lower prices are possible because such manufacturers are willing to make a profit that is not a living profit for the regular established distributors, and also to the fact that the regular established distributors must, because of the nature of their business, consider in their prices to the consumers the profits intervening between the manufacturer and the consumer. If the manufacturer should shift the tax to the jobber and the retailer, then the retailer would have to bear the burden of the tax and the accumulation of profit thereon, whereas the manufacturing retailers of the class referred to above would wholly, or at least in part, avoid the payment of the tax.

15. Candy manufacturers are subject to three Federal taxes: Corporation profits tax, excess-profits tax, and the 5 per cent excise tax, as compared with only two taxes levied on competitive and other industries not subject to specific taxes. We are not asking to be freed from general taxation. All that we ask is that we shall be taxed the same as other industries in general. We are now being taxed on invested capital, because we can not actually pass the tax on to the consumer without a serious effect upon the consumption of the product. We therefore urge the repeal of the candy excise tax because it is burdensome, discriminatory, and unfair to a reputable industry which, under normal conditions, is always highly competitive.

16. If industries are to be taxed, then in all fairness we believe that they should all be taxed alike and that our industry should not be discriminated against.

HUBERT B. FULLER, *Special Tax Counsel, Cleveland, Ohio.*

THOMAS E. LANNEN, *General Counsel, Chicago, Ill.*

WALTER C. HUGHES, *Secretary and Treasurer, Chicago, Ill.*

Special Tax Committee of the Association.

BRIEF OF THE ASSOCIATED RETAIL CONFECTIONERS OF THE UNITED STATES.

We desire to join the National Confectioners' Association in urging the repeal of the manufacturers' excise tax on candy. We understand that their representatives have appeared before your committee in person and by brief and have presented the case of the manufacturing confectioners on whom this tax is imposed. We believe that they have quite thoroughly covered the matter, but we desire to present the following brief statement supplementary thereto with reference to the question of the retail sales prices of the highest grade of candies:

In the first place, practically all retail confectioners are manufacturers and therefore pay this excise tax and are interested in its repeal.

In view of the reduced price of sugar, members of your committee have inquired why the retail prices of candy are not generally lower. Very few kinds of candy can be made without sugar, but under normal conditions sugar was never an appreciable part of the cost of high-grade confections; it is the sweet vehicle for carrying the

expensive flavors. Whatever reductions there have been in the price of sugar have been offset, by the increased cost of other products.

It is the nuts and fruits which all candy lovers demand that add so greatly to the cost. These are particularly used in the highest grade confections. Pecan nuts, for example, are selling in the wholesale market at \$1.10 per pound, prices not having been reduced since the peak of a year ago. Other nuts extensively used in the manufacture of candy, such as almonds and Brazil nuts, are sold at figures far in excess of prewar prices. Vanilla beans, which are ground into the highest priced chocolate coatings, are selling at \$5 per pound wholesale. Candied fruits, used for fruit centers in the higher grade confections, sell on the wholesale market at 75 cents a pound.

Boxes and other supplies have receded but little from their high-price levels. Boxes in which high-grade chocolates are packed, and for which no extra charge is made, sell wholesale at from 6 to 10 cents each.

Labor costs in the retail confectionery business continue very high. Expert candy makers, such as chocolate coaters, in the candy factories to-day receive much the same wages as a year ago. These labor costs reached a peak nearly double the prewar prices and have only slightly receded.

The more expensive candies are manufactured in small lots and by hand as distinguished from the large quantities of less expensive grades turned out by machinery.

On the other hand, increased rentals in the down-town retail districts in the large cities have offset the slightly lower costs above referred to. Increases of from 50 to 100 per cent in rentals on retail store leases expiring this spring have been very generally demanded by the property owners.

Nevertheless statistics which have been gathered during the past three months show an average reduction in the retail selling price of high-grade candies of 20 per cent. A 20 per cent reduction is, of course, the equivalent of a 25 per cent increase.

During the entire era of high prices the selling price to the public did not increase beyond 75 per cent, while the advances in the cost of many of the raw materials used in manufacture ranged from 100 to 500 per cent.

We desire, however, to emphasize the fact that the difference between the cheaper and the higher priced candy is not a question of purity but rather of the quality and grade of the component ingredients. The lower priced candies are cheap only in price: that is to say, they are made of chemically pure products and under sanitary conditions. The difference between the less expensive and the more expensive grades of candy may possibly be shown best by an illustration.

There is just as great a difference in the quality of the cocoa beans used to manufacture chocolate for low-priced candies and those used in the higher grades as between low-grade coffees selling at 10 cents per pound and fine blends selling at 40 cents per pound. All are equally pure, but with the cocoa, as with the coffee, the difference lies entirely in the flavor and the aroma of the better beans used in the manufacture of the best confections.

ELLWOOD B. CHAPMAN, *President.*

GOOD HOUSEKEEPING,
BUREAU OF FOODS, SANITATION, AND HEALTH,
Washington, D. C., July 27, 1921.

DEAR SIR: As I am confined as a patient at the George Washington Hospital, I am unable to appear in person before your committee.

I noticed a brief outline in this morning's newspaper of some of the proposed changes in taxation which are likely to be made. I realize how inaccurate these summaries are likely to be and I hope that the point to which I am about to call your attention is one of these inaccuracies.

I note that it is proposed to take the tax off candy and soft drinks. I sincerely hope this will not be done. Candy is one of the greatest enemies to child life of this country, and soft drinks are a close second. Mothers are writing to me constantly from all parts of the country, asking if I can suggest something for their children who have diabetes.

Sugar in all forms, but especially in candy, makes great inroads on the health of our children. There is a terrible toll in the bad teeth, unbalanced rations, and tendency to diabetes in child life, due to the consumption of candy in various forms, and to soft drinks. The soft drinks are chiefly composed of sugar, usually with some bitter or aromatic substances. In some instances they contain a positively injurious alkaloid, such as caffeine. This is true of the cola type of soft drinks.

In the interest of the health of our children, I hope your committee will increase, the taxes on these products. While increased taxes may not stop the use of these injurious articles, they, at least, will restrict it to some extent.

The plea for the remission of these taxes does not come from those interested in public health, but from the manufacturers who are willing to increase their wealth at the expense of the health and happiness of the children of the country.

I know your committee is not a health committee, but I earnestly implore you not to take any action in regard to the remission of taxes in the line indicated which will tend to increase the deficiencies of our children. The story of the teeth of the school children is one almost too horrible to relate. A large part of the bad teeth revealed by a survey of the school children, is undoubtedly due to the almost universal consumption of candy and soft drinks.

HARVEY W. WILEY.

COUGH DROPS.

A. N. BODEY, GENERAL MANAGER FOR WILLIAM H. LUDEN, MANUFACTURING CONFECTIONER.

Mr. BODEY. Mr. Chairman and gentlemen, I want to talk on a subject that is possibly a little different from what you have been hearing, and that is on cough drops. To-day the cough-drop business is practically nil, on account of the present method of taxation.

Mr. GARNER. What is the paragraph in the present law?

Mr. BODEY. Section 907 at the present time.

Mr. FREAR. Let me ask a question as to procedure. In the tax law we have hundreds of different taxes. Cough drops is one, soda water is another, and other soft drinks, and so on. Are we going to have special hearings for those in the consideration of the tax bill during the four days set apart for tax hearings?

The CHAIRMAN. We will hear people as they come along, and they can speak with reference to any subject in the tax law except the sales tax. The gentleman will proceed with as little interruption as possible.

Mr. BODEY. I will be very brief, and will say that at the present time the consumer is compelled to pay 1 cent on a package of cough drops costing 5 cents; that is, by a stamp being affixed. We have made investigations and find that fully 50 per cent of the dealers throughout the country refuse to handle cough drops on account of the nuisance of obtaining and affixing stamps, and 50 per cent of the rest of the dealers who handle cough drops are not collecting the stamp tax or affixing any. We made investigations throughout the United States, and have that statement borne out by the actual facts.

Mr. YOUNG. They are violating the law?

Mr. BODEY. Yes; and ruining our business. We visited 38 stores in Washington. Thirteen stores did not handle them; 13 stores handled them, and we bought a package that had the stamp on; but we bought 12 packages without stamps, right here in the city, and we find the same conditions throughout the country.

The CHAIRMAN. Would you recommend that the stamp be placed on the package by the manufacturers?

Mr. BODEY. No, sir. Previous to this law, in 1919, the manufacturer was taxed 2 per cent on his sales, and you got that monthly on sworn statements by the manufacturer, and we would like to have a manufacturer's tax imposed, but we could not stand a 20 per cent tax, which is the tax imposed at the present time.

Mr. GARNER. You want the tax repealed, do you not?

Mr. BODEY. Yes, sir.

Mr. GARNER. I think you are right.

Mr. BODEY. And as soon as possible, because our business is practically done. The people will not handle cough drops and they will not pay the tax.

Mr. GARNER. If you could get Mr. Fordney to agree to that it could be done at once.

Mr. LONGWORTH. How much has the volume of your business been reduced?

Mr. BODEY. It has been reduced 62 per cent.

Mr. FREAR. There is a separate duty on cough drops?

Mr. BODEY. Yes, sir.

Mr. FREAR. Of 20 per cent?

Mr. BODEY. Yes; at the present time. It is 1 cent on every package, which makes it 20 per cent.

Mr. GERNERD. I think you should explain that you do not want all of the tax removed.

Mr. BODEY. I have said that.

Mr. GERNERD. But you said something that leaves the impression that you want the tax entirely removed.

Mr. BODEY. No. I told the chairman we could not stand a 20 per cent tax.

Mr. YOUNG. He said he wanted a tax but wanted a lower tax.

Mr. BODEY. If it is absolutely necessary we would be willing to have the previous tax doubled to 4 per cent, which would be the same as on proprietary articles. Now, cough drops are classed as proprietary articles at the present time, and the tax is 4 per cent, but cough drops are now bearing a tax of 20 per cent.

Mr. LONGWORTH. You are not compelled to put on a stamp, are you?

Mr. BODEY. No, sir; the stamp must be put on by the retailer.

Mr. LONGWORTH. But you are not compelled in that transaction to use a stamp; you have another alternative.

Mr. BODEY. We are not compelled, no, sir; it is a consumer's tax.

Mr. LONGWORTH. I know, but a stamp need not be affixed at all.

Mr. BODEY. Not by the manufacturer.

Mr. LONGWORTH. By either party.

Mr. BODEY. Yes; it must be affixed by the retailer when he sells a package to the consumer.

Mr. LONGWORTH. Let me read the law:

The taxes imposed by this section shall be collected by whichever of the following methods the commissioner may deem expedient: (1) By stamp affixed to such article by the vendor, the cost of which shall be reimbursed to the vendor by the purchaser; or (2) by payment to the vendor by the purchaser at the time of the sale, the taxes so collected, etc.

In other words, the stamp does not have to be affixed.

Mr. BODEY. But the best general information is that a stamp must be affixed.

Mr. LONGWORTH. Is that by order of the commissioner?

Mr. BODEY. It is, as I understand it; yes, sir. Right after that law went into effect we were down here and tried to have a ruling on it, because we foresaw what might take place; we tried to have a little change made in it, in fact, they did make a change which allowed 1 cent on a 25-cent purchase. You will see that the law provides for 1 cent on a 25-cent purchase or fraction thereof, but that was again changed to 1 cent on every package.

Mr. LONGWORTH. What I want to know is whether the Treasury Department has issued a regulation which compels the use of a stamp in this transaction?

Mr. BODEY. I will not say positively, but I think it has.

Mr. LONGWORTH. It has?

Mr. BODEY. I think so. We would like to have relief as soon as possible, if it can be done, and we would be willing to pay a tax of 4 per cent on our gross sales.

Mr. TILSON. You appeared before the Finance Committee of the Senate?

Mr. BODEY. Yes, sir.

Mr. TILSON. You were heard there at length and filed briefs?

Mr. BODEY. Yes, sir.

Mr. TILSON. And all of those briefs are filed?

Mr. BODEY. Yes; and I have briefs here which I would like to leave with the members of the committee.

The CHAIRMAN. Are they the same briefs which you filed with the Finance Committee?

Mr. BODEY. Yes, sir.

The CHAIRMAN. They are already printed.

Mr. BODEY. Then you have everything.

The CHAIRMAN. Do not file any brief that has been filed, because we will not print it; that would be a duplication and an extra expense for no good purpose.

Mr. YOUNG. I suggest, Mr. Chairman, that you have one of your secretaries print something that we can paste in these hearings held before the Senate committee, giving the names of those who testified and the pages where their testimony can be found. I find that has not been done and it is pretty hard to tell where the testimony is.

The CHAIRMAN. Do you refer to the Finance Committee's report?

Mr. YOUNG. Yes.

The CHAIRMAN. Very well, we will have that done.

Mr. BODEY. I will be glad to answer any questions.

Mr. GERNERD. As this gentleman is from my district, may I make a statement?

The CHAIRMAN. Yes.

HON. FRED B. GERNERD, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA.

Mr. GERNERD. I wish to say that, if possible, I should like to see the elimination of the small and insignificant taxes that have been imposed upon ice-cream cones, ice-cream sodas, and other minor luxuries. I know that the Government is not getting the revenue intended to be collected by this form of taxation. This form of taxation has become irritable and obnoxious. If we must have a revenue from this source, let us put it in such a form that the children and others who indulge in these little pleasures of life will be relieved of this trifling imposition. I am positive the harm such a tax produces is far greater than the return it brings to the Government. It is a tax that at present is not equitably collected. Let us give to the children full measure for their pennies without exacting a penny tax each time they indulge in their youthful pleasures.

W. W. SMITH, REPRESENTING SMITH BROS., POUGHKEEPSIE, N. Y.

Mr. SMITH. I did not appear before the Senate committee, Mr. Chairman, but I have a little evidence of this matter, and I will show the members of the committee what I am talking about.

Mr. FREAR. Cough drops?

Mr. SMITH. Yes.

Mr. LONGWORTH. You are not one of the Smith Bros.?

Mr. SMITH. I am a descendent of the Smith on the left-hand side of that box. I want to call the attention of the committee to the fact that the total sales of the cough drop manufacturers of the country amount to about \$10,000,000 a year, and with your permission I want to read some of the figures that we gave before the Senate committee. When the tax was first placed on cough drops, in 1917, it was 2 per cent of the manufacturers' sales. This did not interfere in any way with the business. When the law was changed, section 907, law of 1918, it was intended to double this tax or make it 4 per cent of the sales. Instead of that the law was worded 1 cent for every 25 cents or fraction thereof on the retailer's sale. The Commissioner of Internal Revenue has interpreted that to mean 1 cent on each 5-cent package, and these cough-drops are customarily put up in 5-cent packages for the trade. A similar article sold by the same class of vendors was raised only from 2 to 3 per cent of the manufacturers' sales, while we had to pay 1 cent on each 5-cent package. The figures showing the shrinkage in our sales since the stamp tax has been in effect are as follows: First four months of 1919, 11,150 cases of 2,000 packages each. That was when there was no stamp tax. First four months of 1920, 7,458 cases, with a stamp tax. First four months of 1921, 1,580 cases. First three weeks of July, 1920, 373 cases sold, and first three weeks of July of this year but 13 cases.

Mr. FREAR. This tax does not apply to other matters.

Mr. SMITH. No; cough drops occupy a different position. The sum and substance of our plea to this committee is this: We ask that cough drops in packages be taken out of section 907 of the revenue act of 1918 and be given a subsection under section 900 and that a 4 per cent tax be levied on the gross sales of the manufacturer. You will notice that we are not trying to evade a tax but are asking for a tax.

Mr. TILSON. You are asking that the tax be placed back on you.

Mr. SMITH. Placed under its natural classification.

Mr. TILSON. I say, you are asking that the tax be placed back on you?

Mr. SMITH. Yes; we absorb the tax, and this makes it so that a package of cough drops can be sold for 5 cents, which will give us the volume of business that is necessary to make it a successful business.

Mr. YOUNG. Where is your brief?

Mr. SMITH. It is printed in the Senate hearings, pages 711 to 725. Our papers and letters are all embodied there and we do not want to repeat them.

HON. HAMILTON FISH, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK.

Mr. FISH. Mr. Chairman, I desire to substantiate the remarks made by Mr. Smith, the cough-drop manufacturer, before your committee. Mr. Smith represents a very old and long established firm. He

came to you about a matter which is not of any great importance to you, but one of very great importance to this business. What he asks is simply this: He has not come here trying to ask you to relieve his firm from taxation, but he wants you to change the method. At the present time, this little box of cough drops is taxed 1 cent, and, while it used to sell for 5 cents per box, it now sells for 6 cents with the stamp tax. That is really a 20 per cent tax, and it has almost ruined a well established business. I am positive that this committee in deciding on the means of raising revenue does not desire to harm an established business or almost ruin it. Mr. Smith pointed out to you gentlemen that they are now paying this 1 cent tax, which amounts to a tax of 20 per cent, and that it has ruined his business, because the small vendors do not want to put a 1 cent stamp on a 5 cent package. What he desires to do, or to have your committee do, is to put on a 4 per cent gross sales tax, and, as he pointed out to you, this gross sales tax would increase the revenue by over 50 per cent to the country. Having increased the revenue, it would not harm his business in the way that this 1 cent tax does at the present time. Of course, with you it is simply a matter of raising revenue, and by making this change you will increase your revenue, and, at the same time, help a long-established business.

The CHAIRMAN. Do I understand you to suggest a 4 per cent gross sales tax on the manufacturer?

Mr. FISH. A gross sales tax on the gross sales. That puts it on the same basis with other proprietary medicinal taxes.

FUR MANUFACTURES.

EDWARD FILLMORE, COUNSEL, NATIONAL COMMITTEE OF THE FUR INDUSTRY, NEW YORK CITY.

The CHAIRMAN. Mr. Fillmore, you represent the national committee of the fur industry, of New York City?

Mr. FILLMORE. Yes, sir. I want to ask the privilege of filing a memorandum for the purpose of the record.

The CHAIRMAN. All right, and it will be printed in the record unless you duplicate what is in your memorandum.

Mr. FILLMORE. I am not going to duplicate.

I will endeavor to hold you gentlemen but a very few minutes. Our whole case is explained in the memorandum which we are submitting and we ask that you go over the facts stated there, and give them your kind consideration. We ask that you gentlemen recommend to Congress the repealing of the tax on furs. Fur is the only article of wearing apparel that is being taxed under subdivision 19 of section 900, and is the only article of wearing apparel in general use that is being taxed thus. It is a manufacturer's tax.

Mr. COLLIER. What section is that?

Mr. FILLMORE. Section 900, subdivision 19. Articles made of fur bear a tax of 10 per cent. This tax is most discriminatory, burdensome, and unjust. We have been obliged to pay the tax, while other wearing apparel lines have been free of this tax. Clothing pays no tax. Silks pay no tax except under section 904, which is the excise price tax.

Mr. FREAR. If a man buys a pair of silk stockings costing \$1 per pair, a pair of women's silk stockings——

Mr. FILLMORE. That is right, with the exception of a few articles in section 904, but there are very few.

Mr. FREAR. This is 10 per cent.

Mr. FILLMORE. Ten per cent is right.

Mr. GREEN. Do you represent the people that make cheap fur coats that the ordinary farmer's wife wears?

Mr. FILLMORE. I do.

Mr. GREEN. I grant you those ought not to be taxed, but as far as the high-priced things are concerned, they are luxuries of the most expensive kind.

Mr. FILLMORE. Just on that question, Mr. Congressman, the question is where are you going to say that an article is a luxury, and another article is not a luxury?

Mr. GREEN. Well, you can say that a lady's coat that sells for from \$1,500 to \$3,000 is a luxury.

Mr. FILLMORE. I grant you that if this law had read, "any article over \$3,000 or \$5,000 shall bear a tax," then it would be a proper tax.

The CHAIRMAN. Where would you divide the price, call one a luxury and another a necessity?

Mr. FILLMORE. That is something I could not answer; something that I would like to have Congress answer.

Mr. FREAR. Are men's shirts costing in excess of \$3 luxuries? They are taxed 10 per cent in excess of \$3.

Mr. FILLMORE. Right.

Mr. FREAR. Is that a luxury?

Mr. FILLMORE. I would say that to some it would be a luxury and to some a necessity.

Mr. FREAR. We had to set some limit.

Mr. FILLMORE. You are absolutely right on that proposition, but you want to look at it in this light, that it is what is called a nuisance tax to-day. The Secretary of the Treasury has recommended the repeal of section 904, which covers all of the articles of general wearing apparel that are now taxed.

Mr. LONGWORTH. I think you are wrong in saying he recommended it.

Mr. FILLMORE. I believe he has recommended it.

Mr. LONGWORTH. He merely suggested it.

Mr. FILLMORE. I think that is a recommendation.

Mr. LONGWORTH. That is not a recommendation.

Mr. FILLMORE. If he suggests, I will say that he suggests that section 904 be eliminated. If section 904 be repealed, the only article of wearing apparel that will remain to be taxed will be furs. There is no reason why a garment made of fur, which is just as much a necessity as any cloth garment—in fact, much more of a necessity, because an article made of fur is by far more economical than a cloth garment—should be the only article of wearing apparel to be taxed. A cloth garment is worn one season, and then the style changes and it is thrown away, whereas a fur article may be remodeled and worn for years.

Mr. COLLIER. Let me ask you a question right there. You said at the beginning of your remarks that the fur people have been specially

singled out. You are not specially taxed except on the extremely cheap grades of fur, are you?

Mr. FILLMORE. No; we are taxed on everything.

Mr. COLLIER. I know, but section 904, which taxes carpets and rugs, umbrellas, smoking coats, hats, and bonnets, in excess of \$15, and boots, shoes, and slippers in excess of \$10 a pair, etc., exempts you altogether from that tax, specially, in section (b), which says, "The taxes imposed by this section shall not apply to any article made of fur."

Mr. FILLMORE. Because we are already taxed under section 900

Mr. COLLIER. But I say the only difference between your tax and the tax on these hats and bonnets is that there is a special exemption below which they will not be taxed, and yet we tax cheap grades of fur.

Mr. FILLMORE. You are taxing all grades of fur, from the cheapest. Now, a coat made of fur can be sold as cheaply as a coat made of cloth. Fur coats are sold as low as \$20, \$30, \$50, and \$100. The high-priced coats costing \$1,000 or \$2,000 are very rare.

Mr. GREEN. Most of the complaint comes not from the people who buy the cheap coats, but those who are wearing and pay for the \$1,000 coats.

Mr. FILLMORE. I do not think you are right on that, Congressman. That complaint comes from the poor, because the poor are the ones who are paying the majority of this tax.

Mr. TILSON. If you were put on the same basis as the other dealers in clothing, and given the same exemption, so that the tax would be imposed only upon furs above a certain price, then would the ground be removed from under your complaint?

Mr. FILLMORE. If we are given equal opportunity with all other industries, certainly we can not complain, but we do complain to-day because we are not given equal opportunities.

Mr. COLLIER. What do you think should be the rate the committee ought to start on? What should be the rate on fur?

Mr. FILLMORE. We would say over a certain price. I would say an article up to about \$500 should be exempt from taxation, for this reason—

The CHAIRMAN. That would catch a whole lot of farmers, would it not?

Mr. FILLMORE. I would say this, if you propose a tax—we have not given that a thought—if you propose a graduated tax above a certain price—

The CHAIRMAN. Let me say to you that nearly every country in the world participating in the recent war has levied a tax upon fur, and some of them a much higher tax than we have.

Mr. FILLMORE. I want to say this, that Canada did have a tax, and they took it off.

The CHAIRMAN. No; they have not.

Mr. FILLMORE. Now, they have got a 2 per cent sales tax on articles of fur.

The CHAIRMAN. I beg to disagree with you. There is a tax upon that article in the Canadian law right now.

Mr. FILLMORE. They have taken it off. It is 2 per cent.

The CHAIRMAN. No; you are mistaken. I have a copy of the law, and the tax now exists.

Mr. FILLMORE. I have a copy of a telegram here that was sent to me—

The CHAIRMAN. The law takes precedence over a telegram.

Mr. FILLMORE. I will admit that. I will abide by your greater knowledge, of course, on the subject, but I will say that England has not got it, and there is no reason why we should be discriminated against. Just consider, gentlemen, the articles in section 900. I do not know why we were placed in section 900, or why we should be singled out.

Mr. HOUGHTON. Who pays the tax?

Mr. FILLMORE. Ultimately, the consumer.

Mr. HOUGHTON. Certainly, and every time a sale is made it is added to the consumer's bill, and he pays it right at the time.

Mr. FILLMORE. But you want to consider the tremendous hardship that is on the manufacturer. This is a comparatively poor and small industry, and the manufacturer must pay the tax. It will be months and months before he can get his money back. It is a one season's business at best, and this tax is a tremendous hardship on them.

Mr. FREAR. What is the comparative value of a fur garment to-day compared with what it was before the war?

Mr. FILLMORE. I should judge it is to-day almost about the same price, and, in fact, sometimes less.

Mr. GREEN. Furs?

Mr. FILLMORE. Yes, sir.

Mr. GREEN. In the retail stores?

Mr. FILLMORE. I will say that furs have dropped fully 50 per cent.

Mr. FREAR. Within one year?

Mr. FILLMORE. Within one year.

Mr. GREEN. They would have to drop more than that to get back to the prewar price.

Mr. LONGWORTH. On the St. Louis market?

Mr. FILLMORE. On the St. Louis market, or any other market in the world.

Mr. LONGWORTH. That is the great fur market, is it not?

Mr. FILLMORE. Any market, the New York market or the English market.

Mr. LONGWORTH. You say that furs have dropped 50 per cent?

Mr. FILLMORE. And more than that on some articles, 75 per cent.

Mr. FREAR. That is not reflected in the retail price as evidenced in the store windows?

Mr. FILLMORE. It is to-day.

Mr. YOUNG. We do not need furs to-day, but what will the price be when we do need them?

Mr. FILLMORE. I believe it will be normal.

Mr. LONGWORTH. What is the legal definition of an article made of fur? How much work must be put on it to have it come under this provision?

Mr. FILLMORE. The skin must first be cured, it must be dressed, and then it must be dyed, and then after the dyeing process it is cut up and made into a garment.

The CHAIRMAN. Why must it be dyed?

Mr. FILLMORE. Because most of the articles in their natural condition are not worn.

The CHAIRMAN. Because you want to sell a cat skin for a mink or seal?

Mr. FILLMORE. I think you are under a wrong impression there.

The CHAIRMAN. Mr. Fillmore, there was a man here the other day who appealed to us to remove a certain tax saying that there were so many poor people in the country that want to buy yachts costing from \$50,000 to \$100,000 and they just can not afford to buy them unless we remit this tax.

Mr. FILLMORE. We are not in the same position, Mr. Chairman.

The CHAIRMAN. But you think we should exempt all articles made of fur costing under \$500. Where is there any poor man on earth who wears a \$500 fur coat?

Mr. FILLMORE. Let me say to you, Mr. Chairman, that the majority of the articles that are sold by the furriers are sold for from \$2.50 to about \$500. With regard to the \$500 coat, I will state that I have in mind the Hudson seal coat, which you gentlemen are very familiar with, and every housewife in the country has one.

Mr. TILSON. Those who have seal coats are not the wives of Members of Congress.

Mr. FILLMORE. I will say that there are a number of Members of Congress that have a great deal more expensive coats than that.

But you take a rabbit skin, a garment made out of rabbit skin or opossum. That is a cheap article that is worn by the poorest kind of people, costing from \$5 up to \$30. Then there are the fox scarfs.

You gentlemen should bear in mind that at the time you prepared this bill in the Ways and Means Committee, when you had only 15 articles of fur which you wanted to tax, we came here and showed you, because we were at war and it was our patriotic duty to point out to you and say to you to tax all furs alike, as in that way the Government will obtain more revenue. But we are no longer at war.

The CHAIRMAN. Getting back to the dyes; you and I know that muskrats are bought by the thousands, and yet you can not find one with a fine-tooth comb. There is not a furrier in the market who sells a muskrat skin.

Mr. FILLMORE. They call them Hudson seal.

The CHAIRMAN. You call them Hudson seal?

Mr. FILLMORE. There is a distinction. It is easy to tell what a Hudson seal is. It is a muskrat skin sheared and dyed black.

Mr. LONGWORTH. I want to know more about the definition of an article made of fur. You say it must be cured and dyed?

Mr. FILLMORE. It must not be dyed. There are some articles which are used in their natural color.

Mr. LONGWORTH. What I want to get at is how much manufacturing must be employed to make an article made of fur? Does it have to be sewed into shape?

Mr. FILLMORE. Yes, sir; it must be sewed. There are some articles, such as fox scarfs, for instance, which are used in their natural state, in animal fashion.

Mr. LONGWORTH. Is not that an article made of fur?

Mr. FILLMORE. That is an article made of fur.

Mr. LONGWORTH. But there is no manufacturing?

Mr. FILLMORE. Yes, there is; there must be some manufacturing done in order to produce that article.

Mr. LONGWORTH. What I am getting at is this, that to be an article made of fur under this law it does not have to be made up into a coat or anything of that sort?

Mr. FILLMORE. No.

Mr. LONGWORTH. Practically no labor is employed on that at all, and practically the only cost is the original cost of the fur; is that not true?

Mr. FILLMORE. I would not say that; no.

Mr. LONGWORTH. I want to get right down to just what an article made of fur is. You say it is the only article of wearing apparel that is taxed?

Mr. FILLMORE. Yes, sir.

Mr. LONGWORTH. As a matter of fact, it is not wearing apparel at all, is it?

Mr. FILLMORE. It is an article made of fur. Every article made of fur is an article of wearing apparel.

Mr. LONGWORTH. It is not a coat, and it is not a garment.

Mr. FILLMORE. It is a coat or a garment. I will say that there are not so many of the nature you speak of.

Mr. LONGWORTH. Now, let us get down to this proposition. Take one of these things you sell; an article made of fur. What proportion of the price that you get for it is the original cost of the fur, and what proportion is added on for the cost of manufacture?

Mr. FILLMORE. That all depends on the article. You take an ordinary fox skin. If a woman wanted to make it up into a simple scarf, animal shape, in most cases it must go through some process of manufacture before a woman can possibly wear it. It must be sewed. You can not take an ordinary animal, kill it, skin it, and take it and put it on a woman.

Mr. LONGWORTH. You buy fur on the St. Louis market, do you not, as a rule?

Mr. FILLMORE. Yes; of course.

Mr. LONGWORTH. Now, take the fur that you buy on the St. Louis market. Is that green fur?

Mr. FILLMORE. That is raw fur. It is trapped and shipped into St. Louis, and it is an article put on in its raw state. Sometimes the flesh is on it and sometimes the flesh is taken off, but that is raw fur that is being bought by the manufacturer or dealer. It can not be used in that way. No raw fur can be used without some process of manufacture on it.

Mr. LONGWORTH. Well, you buy that raw fur in that shape, and then you dress it?

Mr. FILLMORE. Dress it.

Mr. LONGWORTH. And then you manufacture it into a coat, or perhaps only a neckpiece?

Mr. FILLMORE. Yes, sir.

Mr. LONGWORTH. The cost of manufacture is very slight, is it not?

Mr. FILLMORE. I will not say that.

Mr. LONGWORTH. Compared with the value of the fur?

Mr. FILLMORE. It all depends on the article. If it is a silver fox, or if it is—

Mr. LONGWORTH. How much do you pay for a silver fox fur?

Mr. FILLMORE. That all depends on its quality, upon its texture.

Mr. LONGWORTH. I do not want to split hairs with you.

Mr. FILLMORE. Perhaps from \$100 to \$500.

Mr. LONGWORTH. Suppose you pay \$500, and it is made into a small neckpiece, how much do you get for it? .

Mr. FILLMORE. If you pay \$500 for it?

Mr. LONGWORTH. Yes.

Mr. FILLMORE. Well, the investment of \$500, plus a reasonable profit, it all depends.

Mr. LONGWORTH. What do you get?

Mr. FILLMORE. It may be sold for \$550, or maybe \$600, but those are very rare. Those are exceptional articles.

Mr. LONGWORTH. You say that you sell a fur that you pay \$500 for, for \$550?

Mr. FILLMORE. It all depends on the dealer.

Mr. LONGWORTH. I am talking about you. I want to get down to this thing. You say the cost of manufacture is very great, and now you say in the same breath that a fur that you pay \$500 for you sell as a finished produce for \$550.

Mr. FILLMORE. But you are picking out an article upon which it would not be necessary—

Mr. LONGWORTH. I will pick out any article you say.

Mr. FILLMORE. Take, then, a coat made out of moleskin.

Mr. LONGWORTH. How much do you pay for a moleskin?

Mr. FILLMORE. A moleskin may cost 20 cents raw or 30 cents raw.

The CHAIRMAN. How many does it take to make a coat?

Mr. FILLMORE. From 500 to 1,000.

Mr. LONGWORTH. How much would that cost you for the fur material?

Mr. FILLMORE. You see, the greatest part is the labor, not the article itself.

Mr. FREAR. That is one of the unusual conditions.

Mr. FILLMORE. That is not an unusual case.

Mr. LONGWORTH. You pay \$200 for a thousand moleskins?

Mr. FILLMORE. Yes.

Mr. LONGWORTH. How much do you get for the coat?

Mr. FILLMORE. Possibly \$500, but 35 per cent of that is labor alone.

Mr. LONGWORTH. How much do you get for that coat?

Mr. FILLMORE. Here is an actual manufacturer who will be very glad to answer that question for you now.

Mr. LONGWORTH. I am asking you how much do you get for it?

Mr. FILLMORE. From 35 per cent to 40 per cent is labor, without any of the other materials that would go to make up the coat.

Mr. LONGWORTH. What do you get for it?

Mr. FILLMORE. About \$500 or \$600.

Mr. LONGWORTH. You get \$600?

Mr. FILLMORE. \$500 or \$600.

Mr. LONGWORTH. You get three times the amount the raw material costs you?

Mr. FILLMORE. No, we do not.

Mr. LONGWORTH. Well, you said the raw material cost you \$200?

Mr. FILLMORE. Yes, but how much is labor?

Mr. LONGWORTH. I am not talking about labor now; I am talking about what you get. You say you get between \$500 and \$600?

Mr. FILLMORE. I must say, Congressman, that I would prefer that a man who actually sells the article would testify.

Mr. LONGWORTH. Do you not sell it?

Mr. FILLMORE. I personally do not sell it.

Mr. LONGWORTH. What do you get for it?

Mr. FILLMORE. I personally do not get it. I would not care to answer that question.

Mr. LONGWORTH. You say you buy these furs and sell them.

Mr. FILLMORE. I want to correct an impression, if you do not mind. I am not a manufacturer. I represent this industry, knowing all their troubles, but I am not a manufacturer. I represent the entire fur industry in a legal way.

Mr. LONGWORTH. What are you, a lawyer?

Mr. FILLMORE. I am a lawyer, but I am familiar with the various —

Mr. LONGWORTH. So you have no knowledge yourself about what the furs cost?

Mr. FILLMORE. I have a general knowledge from my connection with the industry. I have worked with them for 15 years, and I know every phase of this particular industry, but there are manufacturers here, practical manufacturers, who make the garments and sell them, and also dealers, who will be very glad to give you all this information.

Mr. LONGWORTH. You have made two statements. You have made this statement, that a silver fox pelt, for which you pay \$500, you sell for \$550 or \$600, and you said that a thousand moleskins, for which you paid \$200, retailed for \$500 or \$600 for the coat?

Mr. CHANDLER. He also said that he was not a manufacturer. I think it would be fair to get hold of somebody who can give you the facts in regard to that phase of it.

Mr. COLLIER. Do you dye the silver fox?

Mr. FILLMORE. That all depends.

Mr. COLLIER. You would dye it the natural color, would you not?

Mr. FILLMORE. We can not dye it the natural color.

Mr. COLLIER. I thought the main thing about a silver fox was its natural coloring.

Mr. FILLMORE. The silver fox is a natural article; you do not dye that; anything else would be an imitation of it.

The CHAIRMAN. In other words, you want this tax removed?

Mr. FILLMORE. I do.

BRIEF OF THE NATIONAL COMMITTEE OF THE FUR INDUSTRY ON BEHALF OF THE FUR INDUSTRY IN THE UNITED STATES OF AMERICA.

The fur industry is affected by the United States revenue act of 1918, in that a 10 percent tax is imposed on all articles made of fur, to be paid by the manufacturer under Title IX, section 900.

The national committee of the fur industry, appearing at this hearing, is a voluntary committee, composed of and representing the following associations in the United States, which represent all the different branches of the fur industry, from the handling of the raw skin to the finished article:

Fur Merchants Association of the City of New York.

Associated Fur Manufacturers (Inc.), New York City.

American Fur Dealers Association, New York City.

Mutual Protective Fur Manufacturers' Association, New York City.

Fur Dressers' and Fur Dyers, Association, New York City.

Associated Fur Industries of Chicago, Ill.

Boston Association of Fur Manufacturers, Boston, Mass.
 Fur Manufacturers' Association of Philadelphia, Pa.
 Milwaukee Retail Fur Manufacturers' Association, Milwaukee, Wis.
 Raw Fur and Wool Association of St. Louis, Mo.
 Minneapolis Fur Merchants' Association, Minneapolis, Minn.
 Bronx Retail Furriers' Association, New York City.
 San Francisco and Northern California Fur Dealers' Association, San Francisco, Calif.

Southern California Fur Dealers' Association, Los Angeles, Calif.

New England Association of Fur Dealers, Boston, Mass.

We appear before this honorable committee on behalf of the fur industry of the United States at this time, to urge upon Congress to repeal this particular excise tax on furs, because it is discriminatory, unjust, and burdensome, for the following reasons:

From all the varied lines of wearing apparel needed by the individual for physical protection, furs have been singled out, under the revenue act of 1918, as the only article of general wearing apparel to bear a maximum tax of 10 per cent. to be paid by the manufacturer thereof, while men's and women's wearing apparel made of textile fiber, such as silk, wool, velvet, etc., have remained untaxed with the exception of certain definite articles under section 904, which are taxed above a certain price.

The revenue act of 1918 was essentially a war measure, and while the fur industry did not complain of paying its proportionate tax and of bearing its part of the burdens of the war, despite the discrimination, there exists no reason now why, after a period of over two years, the burdens imposed upon it by such a discriminatory tax should not be lifted and the industry placed on equal footing with all other industries in the United States of the same character.

When this committee proposed the revenue bill of 1918 the fur industry, through its war-service committee, observed that in the bill as submitted to the House there were but 15 different kinds of furs enumerated as subject to taxation, and the fur industry, actuated by patriotic motives, immediately presented its views to this committee and showed the error of taxing only a small number of varieties of skins, and urged upon Congress that it impose a tax on all articles made of fur. Congress then accepted the suggestion of the fur industry in that respect and enacted the present law.

The fur industry is not setting this forth for the purpose of showing that it should be rewarded now for an act that was at that time its undoubted patriotic duty, but wishes to call to the attention of this committee that it acted at that time solely because the Government needed money and needed it quickly, and no protest was then made as to the inequality with which these different excise taxes were levied.

We are setting this fact forth, however, for the especial purpose of showing that in the mind of the committee at that time there was the undoubted opinion that only a certain few of the furs used in this industry were nonessential, and that on only those few did they intend levying a tax.

Inasmuch as we are now at peace, the need for our self-imposed silence no longer exists, and we respectfully submit that furs are not nonessential; that by far the majority of those used in this industry are used entirely for necessary wearing apparel, and therefore the fur industry is without question entitled to freedom from unequal taxation and to full opportunity to compete equally with other like industries.

It is possible that it may appear to some that the reason why fur is taxed is because it is either a luxurious or semiluxurious article, and that for that reason it can be dispensed with, and those buying it should pay a tax thereon. This is a misconception of fact and needs but few words to refute.

The first known apparel of any kind that was worn by the human race was made of pelts of animals. The progress of civilization devised substitutes, but articles made of fur have always been a part of the wearing apparel of mankind.

When furs were first used as wearing apparel, only those furs which are to-day the rarest and most expensive were used, and because of the increased demand for low priced furs as necessary wearing apparel and the failure in the supply of these finer furs, the industry as a whole was compelled progressively to seek out and secure the commoner furs to supply the demand, and to-day we are utilizing in very large quantities cats, dogs, rabbits, wombat, opossum, muskrats, etc., from which articles are produced garments as moderately priced and as much in general use as the ordinary cloth coat. This coming year fur coats at the new price levels will be sold by the thousands to the consumer under \$50 a garment.

We wish to distinctly refute any kind of a statement that fur wearing apparel is a luxury.

It is quite true that the pelts of some rare animals are expensive and luxurious, but by far the greater majority of the articles made of fur, sold to and worn by the

general consumers of the United States are not articles of a luxurious nature, but are distinctly articles that are needed by the individual for protection against weather conditions. When it comes to protection against inclement weather, it is well known that no article can take the place of one made of fur, because it is practically the only article that will withstand the extreme chill of winter and is by far more economical than a garment made of cloth, owing to its durability.

In the Northwest, West, and East a fur coat to both man and woman is as necessary to life and comfort as food.

What can be more luxurious than articles made of gold, platinum, silver, or the different metals known as jewelry, yet these articles, under the 1918 revenue act, are taxed at 5 per cent, while necessary fur wearing apparel is taxed at 10 per cent (twice as much as the tax on jewelry), and at that the tax on jewelry is levied on the retail price when sold to the consumer, while on furs the manufacturers must pay, in practically all cases, the tax before it is sold to the consumer.

Under the present revenue act a silk dress, lace gown, or rare linen wearing apparel costing many thousands of dollars, purely luxuries and not necessities in any sense, are not taxed at all, while a woman buying a much-needed fur neckpiece, sold at \$10, is taxed at least \$1.

Men's overcoats and suits, made of the finest textiles, selling at upwards of many hundreds of dollars, bear no tax at all, while the cheapest kind of a fur coat, selling for \$50, is subject to a 10 per cent tax under the present revenue act.

That the fur industry has been directly discriminated against seems apparent from the provisions of section 900 of the revenue law of 1918, as many industries dealing in commodities more in the nature of luxuries than fur wearing apparel are taxed at a much smaller rate, viz: Chewing gum, 3 per cent; musical instruments, 5 per cent; candy, 5 per cent; toilet soap, 3 per cent; slot vending machines, 5 per cent; automobile trucks, 3 per cent; portable electric fans, 5 per cent, etc., while fur garments, articles in general use, and absolute necessities are taxed at 10 per cent.

The basic reason for placing this tax on the manufacturer was, we believe, so as to limit the production of nonessential articles during the war, to conserve labor and materials. This reason now has ceased to exist.

It is well known that fur is a seasonable article, and the tax, under this law, in most cases, is paid by the manufacturers before the article is sold to the consumer. Naturally, the manufacturer pays the tax but passes it to the retailer. The retailer, in selling the garment to the consumer, however, does not collect the exact tax which he pays, but, on the contrary, adds it to his cost price and reimburses himself in that way. So, in reality, the consumer pays a greater tax than if the law required that the tax be paid when the article is sold to the consumer.

Aside from the present law being an injustice to the consumer, it takes from the manufacturer live capital from his business and impedes and retards his progress, because it may be many months before he may be reimbursed by the retailer.

This tax is a further injustice to the retailer because of the fact that, in addition to purchasing merchandise, he is also purchasing taxes, and in a falling market, such as the fur industry is just passing through, he is not able to reimburse himself from the consumer, but must lose the taxes he has already paid in addition to losses sustained in the fall of the market.

Under the revenue act of 1918 we are obliged to pay the same normal and excess-profits tax that the steel, lumber, mining, silk, wool, and many other industries pay, but in addition to all these taxes we must provide for and are required to pay an additional 10 per cent tax that these industries are free from. This undisputable discrimination alone calls for immediate justice by correction.

We believe that the foregoing illustrations should be ample to prove how unjust, unfair, discriminatory, and un-American is this 10 per cent tax on manufactured furs, and the absolute necessity that the same should be immediately repealed.

The Secretary of the Treasury has, in a letter to the chairman of this committee under date of April 30, 1921, recommended the repeal of certain "nuisance" taxes and the miscellaneous taxes levied under section 904. Every tax on general wearing apparel other than the tax on furs is embraced in this section.

We respectfully submit that if section 904, the so-called "luxury" tax be repealed, subdivision 19 of section 900 (the tax on furs) should also be repealed at the same time as it is likewise a tax on wearing apparel, and the Secretary of the Treasury must have intended to recommend the repeal of all taxes on wearing apparel. The tax on furs has always been considered in conjunction with the luxury taxes embraced in section 904 and it has been long contended that this paragraph should have been placed in section 904 rather than in section 900. The Senate Finance Committee considered section 904 and subdivision 19 of section 900 (the fur tax) as of the same character, when in 1919 it amended the House resolution to repeal section 904 so as to include

therein the repeal of subdivision 19 of section 900. In addition to this, if section 904 of the revenue act of 1918 would be repealed and the tax on furs remain, then the only article of general wearing apparel still taxed would be furs.

Would it be just and right to have the fur industry pay a tax while the clothing, silk, lace, velvet, and similar industries are freed of the tax?

We know the Government requires revenue, and Congress should fearlessly impose a tax on all business alike. Let each industry bear its proportionate burden. It is not right, it is not fair, to single out a few industries to bear a burden that all should share in, and there are any number of industries in this country to-day that are progressing and enjoying freedom from special taxation, while a few bear the burdens of it.

It is utterly impossible in a short memorandum and the short time we have to submit our cause to this committee, to recount the many ills that the fur industry is suffering from, as with many other industries it is going through the terrible times of reconstruction after the war, in which values have, without warning, been destroyed almost over night, with the consequent loss of many millions of dollars to those engaged therein, and has brought the industry almost to the verge of ruin.

This situation, together with this most burdensome 10 per cent tax on furs, are making conditions almost unbearable in the industry, and greatly retard its progress toward recovery.

In conclusion, therefore, on behalf of the fur industry, we submit the following:

1. That Congress repeal Title IX, section 900, subdivision 19, of the revenue act of 1918.
2. That Congress repeal the entire Title IX of the revenue act of 1918.
3. That if the United States Government requires revenue, Congress enact a just and undiscriminatory tax law, and for this reason we favor the enactment into law of a gross-sales or turnover tax of 1 per cent in lieu of these present special excise excess-profit, and other business taxes, as represented by either the bill introduced by Senator Smoot on April 12, 1921, known as S. 202, or the bill introduced by Congressman Mott on April 11, 1921, known as H. R. 2226, entitled "A bill to amend the revenue act of 1918 and to establish a general sales tax."

We believe that the enactment into law of such a sales tax as provided in these two bills would be eminently fair, just, and equitable, and would be welcomed by the people of the United States, especially if the normal income and the surtaxes be revised to suit the present economic conditions of the country.

ADOLPH ENGEL, *Chairman.*

OTTO J. PIEHLER, BOSTON, MASS., PRESIDENT NEW ENGLAND FUR DEALERS' ASSOCIATION.

Mr. PIEHLER. Mr. Chairman and gentlemen, I am president of the New England Fur Dealers' Association and president of the Boston Association of Fur Manufacturers, and a member of the national committee of the fur industry. I will take but a few moments of your time unless you want to ask me some questions. I am a practical man. Going back to the war service committee, we showed you that with a little doctoring of the natural skins, a slight doctoring, the tax could be evaded, and showed you in a printed brief how to put on a tax that would bring much money.

Mr. GREEN. Who was it you showed? I was on that committee.

Mr. PIEHLER. The brief was submitted by the war service committee of the fur industry, and I happened to be a member of that committee. Our slogan was "the country first and the industry second."

Mr. TILSON. Do you think you ought to change your program now?

Mr. PIEHLER. I do, for this reason: I think that the tax was put so heavily on the fur industry in order to release labor for what might be more essential industry at that time. The country needed money, and the question was where to get it. But I think it is now a discrimination and unjust burden, in view of the few industries that are taxed that way. I think we are bearing a great deal more than our portion of the burden than we should in our industry.

We are in favor of repealing section 904 and the taxes under section 900, including fur taxes, 900 to 909. If you can not repeal, let them be lowered or reduced and let some of the other industries bear some of it, those who are getting away without paying taxes on excise.

Mr. FREAR. Which are those?

Mr. PIEHLER. Read 900 and the following sections. It will show on the face of it.

Mr. FREAR. There are a number of pages of those. What branches of business or industry would you have us place a tax on?

Mr. PIEHLER. That would be a hard thing for a layman to say here. That is more for the judgment of the committee. If you read there you would see which class is taxed and which class is not; they might come under that tax.

Mr. FREAR. We have been reading that very constantly.

Mr. PIEHLER. There are a certain number of industries that do not appear there.

Mr. FREAR. Suggest what you have in mind, to help the committee or individual members of the committee.

Mr. PIEHLER. I would rather the committee would search that. They are more capable of doing that. There is another thing in regard to the tax in the fur industry. There is the wholesaler against the retailer. The wholesaler also sells much at retail. If he sells at retail he charges more than he does at wholesale and pays only the tax on the wholesale sales price, whereas the retailer who might be a small manufacturer in a way, like the custom tailor, has to pay the tax on the retail sales price.

Mr. FREAR. Are you a retailer?

Mr. PIEHLER. I am a retailer. The question came up this morning about dyeing and selling furs under misrepresentation. There is no misrepresentation whatever in the fur business. There was an impression that it was a kind of a crooked business, when there was referred to to-day to what is known as the Hudson seal, where the muskrat skins were dyed to look like seal. It was customary in the beginning to advertise it as Hudson seal, always with "seal dyed muskrat" printed in parentheses after it, but women became accustomed to it and would go into a store and ask for Hudson seal, knowing that it was muskrat. There are furs that have names given to them that do not represent any animal. A woman comes in and does not buy skunk fur, but she asks for black marten, and there is no such animal as black marten; there is a bird called black marten.

The CHAIRMAN. Do you think that the ladies know they are buying skunk when they buy marten?

Mr. PIEHLER. Yes, sir.

The CHAIRMAN. I never saw one that knew or believed there was such a piece of fur as skunk on the market.

Mr. PIEHLER. My experience dates back 33 years and I never saw a woman that did not know she was buying skunk when she bought black marten.

The CHAIRMAN. You come into the neighborhood where I live—not Washington—and you will find that they know skunk fur up there.

Mr. FREAR. There is one way to discover it.

Mr. PIEHLER. We will have to circularize them.

The CHAIRMAN. There are no furs sold as skunk?

Mr. PIEHLER. A great many would not want to say they had a skunk neckpiece or a skunk muff. Now, if there are any questions, I will be glad to answer them.

The CHAIRMAN. You want this tax taken off?

Mr. PIEHLER. We would like to have this tax taken off, or if not taken off, reduced to 3 per cent, and have some of the other industries bear part of the burden.

The CHAIRMAN. We have had 50 or 60 men in the last four days, and you are not unlike the rest of them. They represent a great many industries here, and if we comply with the wishes of every fellow we will have no revenue at all.

Mr. PIEHLER. I do not mean that. If you have got to have it we are willing to pay our share, but let somebody else bear part of it; do not give it all to us. We are paying 10 per cent luxury tax on furs, and on jewelry they are paying 5 per cent.

The CHAIRMAN. That is what every other man has said here. One question I am interested in. You speak of the retailer having to pay a higher tax than the wholesaler. Comparatively, what are the profits of the retailer and wholesaler upon the individual piece?

Mr. PIEHLER. As a rule we run in the neighborhood of 60 per cent gross.

The CHAIRMAN. The retailer?

Mr. PIEHLER. Yes. He marks it 60 to 65 per cent, taking the wholesaler's sales price.

The CHAIRMAN. What is the wholesaler's net profit?

Mr. PIEHLER. His gross profit varies; it runs from 25 to 30, sometimes only 20 per cent, and oftentimes a great deal less than that, according to the way the season runs.

JACOB B. HOFFMAN, REPRESENTING THE PHILADELPHIA ASSOCIATION OF FUR MANUFACTURERS, PHILADELPHIA, PA.

Mr. HOFFMAN. My name is Jacob B. Hoffman, and I represent the Philadelphia Association of Fur Manufacturers.

The CHAIRMAN. Your name was handed to me by some one. Do you want to talk about fur?

Mr. HOFFMAN. Exactly; I am the only one that is left here; the others have gone home.

The CHAIRMAN. We have heard four men on that subject to-day, and we do not need to hear much more on that subject.

Mr. HOFFMAN. I would like to be heard, Mr. Chairman.

The CHAIRMAN. You are the only one here to be heard?

Mr. HOFFMAN. Yes, sir.

The CHAIRMAN. I have here the names of Mr. Nichols and Mr. Samuels.

Mr. HOFFMAN. They have gone home. They are not here to be heard.

The CHAIRMAN. Very well; we will hear you for five minutes.

Mr. HOFFMAN. Mr. Chairman and gentlemen of the committee, I desire to call your attention to the fact that all articles made of fur are taxed under section 900 of the act. It is the only article of wearing apparel that is taxed under that section. The rest of the articles of wearing apparel are taxed under section 904.

I desire to call your attention to that for this reason, that I want you to know that the excise tax has brought a great hardship on the industry. As an excise tax it must be paid by the manufacturer. This has brought about the condition that the jobbers and the dealers who carry fur in stock are compelled to carry them in stock, not only at the price they paid at the time they purchased the furs, but an additional 10 per cent. And they suffer losses because of the fact that they bought the furs at the time fur was very high.

We will take as an illustration, a fur coat which in 1919 and 1920 was sold for \$400 wholesale, upon which there was a tax of \$40, which tax was paid. Now, at this time, that coat is worth only \$200, and they face a loss of one-half, and that is the reason why goods of this kind should not have an excise tax.

Mr. FREAR. That is the same explanation given in the shoe business and practically all other businesses. That is, they bought and manufactured when prices were high, and they do not like to reduce their profits now.

Mr. HOFFMAN. That is true. However, you can get more money if this tax is made payable by the consumer under section 904 for this reason: The wholesaler's price is less than the retailer's. At present the tax is paid by the manufacturer of a fur garment. The same garment is sold at retail at double the manufacturer's price. In my opinion the tax can be reduced to 5 per cent without any loss of revenue.

Mr. FREAR. You are a retailer?

Mr. HOFFMAN. I am the representative of the Association of Fur Manufacturers. I am the representative of an association that manufactures furs.

Mr. FREAR. You are not a retailer?

Mr. HOFFMAN. No. I represent 188 fur manufacturers and dealers of Philadelphia.

The CHAIRMAN. Would reducing the tax one-half be satisfactory to you?

Mr. HOFFMAN. I think that would be more fair.

The CHAIRMAN. You have stated that trade conditions have done that for you.

Mr. HOFFMAN. Yes; but the tax has already been paid upon the garments and they are now on the shelves of the jobbers and retailers.

Mr. GARNER. You are not in business?

Mr. HOFFMAN. No; not—

Mr. GARNER (interposing). You are an employee of an association?

Mr. HOFFMAN. Yes, sir.

Mr. GARNER. And it is your duty to come down here and present your views to the committee?

Mr. HOFFMAN. Yes, sir.

Mr. GARNER. But I think you will have to go home and regret to report to those people whom you represent that you gave your views here but a lot of heathen Republicans would not pay any attention to them.

Mr. HOFFMAN. I don't believe anybody has got the disposition to make it a hardship on business.

Mr. GARNER. Well, when you see the bill as it is to be written you will find that they have not paid any attention to you.

Mr. HOFFMAN. I also want to point out to you that a \$200 fur coat stands a tax of \$20, while a silk wrap does not stand any tax

at all. I want to say to you that the \$200 silk wrap is a luxury, while the \$200 fur coat is a necessity. The wrap is not necessary.

Mr. FREAR. The wrap is not taxed?

Mr. HOFFMAN. No.

Mr. FREAR. But a silk shirt is?

Mr. HOFFMAN. Yes; and we think the inequalities of the act ought to be eliminated from the new law.

Another thing, it seems to us that anybody who is making excess profits to-day ought to pay an excess-profits tax. All the people in our business are losing money——

The CHAIRMAN (interposing). Do not switch away from the fur business to the excess-profits tax.

Mr. HOFFMAN. I am telling it because it is the condition in Philadelphia to-day.

I think additional revenue may be raised by taxing unearned increment.

The CHAIRMAN. What is unearned increment?

Mr. HOFFMAN. Unearned increment is income derived without giving any return therefor to the community in productive effort. If you buy land for \$10,000 and sold it for \$20,000, the enhancement of value has been contributed by the community, and it is unearned increment.

The CHAIRMAN. What would be earned increment?

Mr. HOFFMAN. Earned increment is income derived from productive effort in trade, commerce, or industry or in the professions.

The CHAIRMAN. If you bought a piece of real estate for \$10,000 and sold it for \$20,000, that \$10,000 would be unearned increment; but if you bought \$10,000 worth of furs and sold them for \$20,000, that \$10,000 that you make is earned increment?

Mr. HOFFMAN. There is a difference between profits from real estate and profits earned by productive effort. The person who holds real estate for speculation virtually holds up the other fellow. It requires no effort of the realty owner whatsoever. He has simply taken unto himself the surplus wealth of the community. I can not here define earned or unearned increment fully. You will find a much better definition, however, in the British laws. You will also find that the rate of taxation on unearned increment is higher than on earned increment.

But I would like to help point out some of the inequalities in this act. We have also been compelled to pay a tax on our repairs; that is, in so far as the skins we use in repairs are concerned. The woman who has a coat and she has worn that coat for a year, she may have to have it repaired. It appears that the tax is due on the skin, if it is a new skin that is used in making the repairs. There is a constant search and investigation in the stores and factories, and in the books, to determine what was made out of the new skins.

Mr. FREAR. How would you put in an amendment to cure that?

Mr. HOFFMAN. That no repairs of any kind shall be considered in a taxable class.

The CHAIRMAN. Mr. Hoffman, you have occupied now six minutes. We can not give you any further time. If you will file with the clerk anything further that you care to say, we will have it printed in the hearings as a part of your remarks.

Mr. HOFFMAN. Thank you, Mr. Chairman.

BRIEF OF THE NATIONAL GARMENT RETAILERS' ASSOCIATION.

DEAR SIR: Unable to appear at the hearings before your committee on tax revision. This association, nevertheless, desires especially to submit its opinion briefly on two sections of the present revenue law which we believe are retarding industry and handicapping a return to normal conditions.

LUXURY TAX.

Any justification which may have existed for the enactment of section 904(a), title 9, commonly described as the luxury tax, no longer exists. This section of the law was passed during the war, we have always been given to believe, primarily for the purpose of discouraging the production and sale of luxury articles, in order that men and capital engaged in the industries affected under that section might be diverted to the production of war materials. At the conclusion of the war, as if to recognize this principle, a resolution repealing section 904(a) was passed by the House of Representatives, which your committee represents.

Under peace conditions section 904(a) has absolutely no justification. The revenue provided therefrom does not compensate for the bother, trouble, and vexation that the collecting and recording of this tax entails to all concerned—the Government, the public, and the retail merchants, who under this law are made revenue collectors for the Government.

Section 904(a) is a direct discrimination against industries—the products of a few industries are designated to pay taxes, while those of the majority are not.

The theory which prompted the enactment of section 904 A was the establishment of a price line of demarcation as between luxury and necessity articles; taxing certain products 10 per cent on the amount in excess of the retail price stipulated in the law.

If this theory were logically sound at the time of the enactment of the law, it is not to-day, for the very reason that prices and values have changed with conditions. A high price of four years ago may be a low price to-day. What was considered a high or luxury price when the law was passed is no longer so considered. Prices have advanced until it is almost impossible for the consumer to purchase articles included under section 904 A under the price line established by the law as the luxury line.

If your committee still maintains that the theory is correct, the least you can do in the interest of the public and the trades affected is to raise the line. We maintain, however, that the theory is wrong; we insist that it is impossible to draw a line dividing luxuries from necessities. What to one man may be a luxury is to the next a necessity.

We believe that a tax of this kind, which must be collected from the consumer at the time of purchase, affects consumption and production and reacts on the welfare of the public.

Unlike other taxes, those imposed under section 904 A can not be absorbed in the price and has become a constant irritant to the public and the retail trade. The purchaser is constantly reminded that she must pay a tax to the Government even on the necessities of life.

Section 904 A of title 9, we believe, should be repealed in the interest of all, and we trust that the committee will give the trade and the public the relief it has waited three years to obtain.

FUR TAX.

Section 900 of title 9, in our judgment should also be repealed. A brief on this subject was submitted by the association before the Senate Finance Committee during May when that committee was listening to testimony on tax revision.

We have taken the liberty of inclosing a copy of that brief, and trust that your committee will give it thoughtful consideration.

JOHN W. HAHN, *Executive Secretary.*

BRIEF OF RETAIL FUR DIVISION OF THE NATIONAL GARMENT RETAILERS' ASSOCIATION.

DEAR SIR: In this petition for relief from the present revenue law, we believe that we are expressing the sentiments of all retail furriers throughout the United States. We make this statement because we have been in a position to sound out the sentiment of the retail furriers from all sections of the country, and knowing their problems are identical with our own we have ventured to say that we speak for the whole retail fur trade.

The petitioner, the fur division of the National Garment Retailers' Association, is an organization of retail furriers throughout the country. The committee who drafted this brief was so authorized by the board of directors, and the board instructing the committee as to the wishes of the membership in any appeal for tax revision.

We believe there has been no industry that has had a greater setback in the past year than the fur industry. Millions of dollars of invested capital have been lost and hundreds of firms have gone out of business for the reason that they could not stand the strain of readjustment during the period of deflation and liquidation. Prices have dropped anywhere from 25 to 75 per cent, and retailers with large stocks suffered great losses. There were few, if any, who did not sustain material loss for the reason that the breaking of prices came just after the opening of the buying season for the fall of 1920. Retailers had purchased their stocks on the old price basis, and were unable to liquidate in time to avoid heavy losses. Unlike some other industries, purchases are made by fur retailers long in advance in anticipation of the coming season, so your committee will have some idea of the loss sustained by the fur industry from the fact that the break came after the retailers had made their purchases for the fall season of 1920.

Although prices in furs in many instances are down now to prewar levels, and in some cases below them, this in itself is not sufficient stimulus to fur buying by the public, and retailers of furs find it a difficult task to make sufficient return on their investment to cover the operating costs of their business.

The fur industry ranks well among the leading industries of the country. In fact, this is one industry in which America has become preeminent. Under normal conditions thousands of men and women are employed in the industry adding in no small way to the general prosperity of the country. When the slump came, however, thousands of people were thrown out of employment, and to a large extent still remain unemployed.

One element which we believe is interfering with the return of normal conditions in the fur industry is the present revenue law. The loss sustained by retail furriers during the past year represents not only the price deflation but likewise the 10 per cent tax which the manufacturer paid to the Government under section 900 of title 10 of the revenue law of 1918, which, of course, was based on the high price and passed along to the retailer either as a separate item or in the price of the furs. As an aftereffect of deflation, as the committee will see, there is no possibility of the fur retailer passing along this high tax percentage to the public, and he must himself sustain that much loss in addition to his losses on prices.

We believe that the 10 per cent excise tax under title 10, affecting furs, should be repealed. Without an intimate acquaintance with the fur industry and the general use of furs to-day, some people are inclined to believe that furs are a luxury. This is not so, as a study of the industry will reveal. While some women may wear furs for no other reason than to add to their charm, there is, nevertheless, an element of warmth in the fur worn, and even in such cases the fur is used as a substitute and takes the place of a cloth garment. On the other hand, there are thousands of people who buy furs for no other reason than to insure warmth, particularly in the northern section of the country where the climate is particularly severe during the winter months.

Our member stores report in many cities in the North that it is almost impossible to sell a cloth garment. Fur coats and fur wraps are in great demand and bought primarily for the reason of insuring against the cold. Garments of this character can not in any sense be considered a luxury. Chauffeurs in cold weather must have furs, while others employed in outside work of a similar nature find that furs are the only garments that properly protect them from the elements of winter weather.

To-day, with reduced fur prices, a fur coat may be purchased in many cases at as low a price as a cloth garment, and, after all, the only line of demarcation that can be established with regard to luxury or necessity articles is the price

line. A fur garment at \$150 is no more a luxury than a cloth garment at the same price, yet no tax attaches to the cloth garment unless the garment is trimmed with furs, so that, after all, the tax is directed against the fur and not against the cloth, nor the price paid for the garment. We see in this an unfair discrimination which reacts against the fur industry and which we believe drafters of the revenue law of 1918 never intended should exist, and which we urge your committee to remedy.

To-day a woman may purchase a cloth dress, suit, or coat, and though the price for that article may run into the hundreds of dollars, as some do, no tax attaches unless the garment is trimmed or decorated with furs. On the other hand, a simple little coat of fur, at any price, no matter how low, under the provisions of the revenue law of 1918 is considered a luxury and is taxed 10 per cent of the selling price.

Another point for the committee to consider in connection with this discrimination is the fact that a fur coat is of much longer life than a cloth coat. As to the question of luxury and necessity, a determining factor is likewise the service element. A cloth garment at \$100, lasting but one season, in our opinion, is more of a luxury than a fur garment selling at \$500, when the period of service is considered, for in all likelihood the fur garment will last from 5 to 10 years, according to the care given it, rendering, as will be seen, from five to ten times the amount of service. So in our opinion the discrimination of luxury and necessity must be based upon a price line of demarcation and the general length of service rendered to the purchaser.

We can not understand, though we have given the question much reflection during the past two years, why the discrimination between the fur industry and others. While furs must pay a tax of 10 per cent, jewelry, on the other hand, pays only 5 per cent. If the framers of the revenue law of 1918 were attempting to discriminate as between luxuries and necessities, taxing those articles which were deemed luxuries to a greater extent than those considered necessities, then the reverse should have been the case with regard to furs and jewelry.

Looking over section 900, the committee will find that the fur industry is directly discriminated against in many instances. Several industries are taxed at a lower rate percentage than the fur industry, though there can be no question of the fact that those other industries are more in the line of luxuries than furs. For instance:

(2) Automobiles and motor cycles (including tires, inner tubes, parts, and accessories, etc.), 5 per cent.

(4) Pianos, organs, piano players, graphophones, phonographs, talking machines, etc., 5 per cent.

(6) Chewing gum, 3 per cent.

(13) Portable electric fans, 5 per cent.

(14) Thermos and thermostatic bottles, carafes, jugs, etc., 5 per cent.

(16) Automatic slot device vending machines, 5 per cent.

(21) Toilet soaps and toilet soap powders, 3 per cent.

We believe we have made it plain that furs are in many cases a necessity, providing warmth, and also that from the point of service a fur garment is not a luxury. Yet we can not see how the same thing can be said of many of those mentioned above on which the tax is lower than on furs. Jewelry, for instance, in no way adds warmth or convenience to the wearer, and the appeal for the sale of this kind of merchandise, aside from watches and clocks, must be based for the most part upon the charm it adds to the appearance of the purchaser. It can have little or no other appeal, and yet it bears a tax of only 5 per cent as against 10 per cent on furs.

If the fur industry is to prosper and those workers who were dismissed during the deflation period are to be taken back into employment, we firmly urge that the fur tax be repealed.

On the other hand, if your committee finally decides not to recommend the repeal of the excise taxes under title 10, we feel that at least all element of discrimination against the fur trade should be removed.

There have been before your committee representatives of different industries, who have recommended the repeal of the excess-profits tax, the lowering of surtaxes on incomes, and the repeal of all excise taxes under title 10. It has been suggested in lieu of this tax that a turnover tax of 1 per cent be enacted to raise sufficient revenue to meet the requirements of the Government, which would suffer in lost income through the repeal of those taxes.

We believe, with others, that the excess-profits tax and surtaxes on incomes as well as the excise taxes are passed along to the consumer wherever possible, adding to the price of merchandise to the ultimate consumer. While in many cases it may not be possible to pass along the excess-profits tax, this tax, nevertheless, adds to the price of merchandise by virtue of the fact that it makes the Government a partner in business and encourages lavish spending in business expenditures, increasing many appropriations which otherwise would be curtailed for the reason that business knows that part of these expenses must be borne by the Government through the deduction of the expenses from the reported net income. These increased expenses, nevertheless, add to the overhead of the retailer and are paid for by the consumer in his purchases. The income tax, too, we believe is passed along in many instances, while the excise taxes undoubtedly are.

The turnover tax, as recommended to your committee, we believe would not in any way be a burden upon the public, but would in a long run mean the lowering of prices to the consumer. There would be no guesswork on the part of business men as to what their taxes would be, nor would there be any necessity for adding on more than enough to make sure that such tax expenses were sufficiently covered. Business would have a definite tax rate before it which would be added to the cost of the article and passed along to the consumer. There is no logic, in our opinion, in the argument that the turnover tax is an attempt to shift the burden of taxation from the rich to the poor, for in our humble judgment all taxes are ultimately consumption taxes and paid by the consumer.

Under the present tax law we have had to increase our general overhead by larger clerical departments, revised and more amplified bookkeeping methods, and have had to expend large sums for legal and auditing fees in order to protect ourselves against present or future requirements of the Treasury Department in connection with the present taxes.

We believe the turnover tax would be a simple tax to administer and collect, thus saving the Government and business the vast sums expended on the administration, collection, and recording of the existing taxes.

We therefore plead that your committee recommend that the vexatious taxes of to-day, namely, the excess-profits tax and excise taxes under title 10, be repealed, and that the surtaxes on incomes be lowered and in their place a turnover tax of 1 per cent be enacted.

We do not recommend the turnover tax because we are particularly anxious to have it, but we believe it is a more equitable and definite tax than the present tax laws and will aid materially in getting business and the country back to normal.

JEWELRY.

HARRY C. LARTER, OF LARTER & SONS, NEW YORK CITY, ACTING CHAIRMAN OF THE JEWELERS' WAR REVENUE TAX COMMITTEE.

Mr. LARTER. Mr. M. D. Rothschild, who ever since the act of 1917 has been chairman of the jewelers' war revenue tax committee, and who has devoted four years of practically all of his time in trying to be of service to the jewelers' trade and the Government in solving the tax problem, is bringing into reality an air castle of his life, and that is a trip around the world, and he has started on that pleasure trip, and in his absence we would like to appear for the jewelers and make a brief statement which to you gentlemen, who had the enactment of the tax bills of 1917 and 1918, will be a particularly interesting one, because we will develop a fact that may be surprising to you and which may put us in a position to make one or two other additional remarks.

Mr. GARNER. Has Mr. Rothschild entirely abandoned his operations with reference to a sales tax?

Mr. LARTER. He is in cable communication with our office and is very much interested in all we are doing. The more Mr. Rothschild studies the tax problem, the greater is his indorsement of the turnover sales tax.

The revenue act of 1917 provided, in section 600, for a tax of 3 per cent "upon any article commonly or commercially known as jewelry, whether real or imitation, sold by manufacturer, producer, or importer thereof."

When the Treasury Department attempted to frame regulations for the administration of this section it was discovered that some of the most important articles sold by jewelers could not be taxed under section 600 as framed, because they were "jewelry" under the legal definitions given to articles "commonly or commercially known as jewelry."

This applied to all unset diamonds and other precious stones, so-called semiprecious stones, all unset or unstrung pearls, and applied also to all imitations of precious stones and pearls as long as they were not set or strung. Settings or mountings made of precious metals or imitations thereof which required the addition of material, stones, or other parts to become complete articles of jewelry were likewise excluded from operation of the tax.

Mr. YOUNG. Is that a department ruling?

Mr. LARTER. Yes. It was defined that a diamond was not an article of jewelry, neither was the mounting an article of jewelry; a watch movement was not an article of jewelry, nor a watchcase, but the two had to be combined.

This state of facts threatened to deprive the Government of a large part of the revenue which section 600 was expected to yield. The jewelers, however, actuated by patriotism and keenly alive to the Government's urgent need of funds to prosecute the war, held meetings of representative dealers in pearls and precious stones and unanimously authorized their war revenue tax committee to say to the Commissioner of Internal Revenue that they were ready and willing to accept a Treasury ruling which would make the sale of unset precious stones, pearls, and jewelry settings without gems subject to the 3 per cent tax when sold to a customer for personal use.

Such a Treasury decision, No. 2573, was issued under date of November 1, 1917. While this ruling was clearly against the law and therefore could not have been enforced against any protest, and although the more important retail jewelers were fully aware that they were voluntarily paying hundreds of thousands of dollars to the Treasury, it is to the credit of American jewelers that this Treasury decision was never questioned or opposed through legal proceedings.

When the revenue act of 1918 was being framed, the jewelers cooperated with the Committee on Ways and Means of the House of Representatives to secure a maximum tax from their industry. The suggestions made by the jewelers' committee were so thoroughgoing as to cover in section 905 practically everything a jeweler sells.

During the World War the jewelers paid these discriminatory taxes without whining and without evasion, because they knew—in fact they were assured—that the discrimination would cease with the return of peace, when these unequal taxes would be speedily repealed.

Now, gentlemen, we do not want the Ways and Means Committee, or Congress, in thinking about jewelers, to labor under the impression that they comprise only the fine establishments in the large

cities. There are between 25,000 and 30,000 retail jewelers in the United States, the larger part of whom are the small jewelers in the towns and villages, some in your districts, and they have and sell watches and clocks, some jewelry, some silverware, and some plated and sterling silver plate. With those retail jewelers are the manufacturers who make the merchandise which they sell, and there are, at least, a million men employed in the industry in times of peace.

We do not want to go into the question of essentiality and non-essentiality and answer what is a luxury. We could not if we wanted to. We think it is unanswerable. A large retail jeweler went over his stock, item by item, and estimated that 60 per cent of his stock comprised articles that were used for the convenience and comfort and necessity of the people at large. We therefore feel that we ought not to be classed as a nonessential industry or as dealers in luxuries exclusively.

Let me remind you that you gentlemen could not have gotten up this morning and kept your engagements to-day if it were not for the watch and clock sold by the jewelers; there could have been no zero hour in the trenches of the World War if it were not for the jeweler; the railroads in the United States could not run if it was not for the jeweler; you could not have adjusted your collar or cuffs to-day if it had not been for the jeweler; you could not have eaten your breakfast without the necessary tools you get from the jeweler.

The CHAIRMAN. We had wars before clocks were made.

Mr. GARNER. I would say that you are mistaken. For instance, Mr. Green there gets up by the sun.

Mr. LARTER. That is a very good clock—nature's clock.

The United States Bureau of the Census estimated that there were 200,000 marriages in the United States in the month of June. According to all orthodox customs of the world, those marriages could not have taken place if it were not for the jewelers, and so, gentlemen, we want to impress upon you that we are not in an industry that exclusively deals in luxuries, and what we are appearing before you this afternoon for is that now that we are at peace we feel that the present discriminatory taxes and excise taxes on the jewelers and the other industries are unfair, unjust, and inequitable, and while we know—

The CHAIRMAN. We have had several gentlemen before the committee, and we have not found one who wants to be taxed.

Mr. LARTER. I can understand that very well, indeed. As near as we can learn from the public press, you expect to eliminate the excess-profits tax and maybe reduce the surtaxes on incomes, and therefore it is necessary for you to raise additional revenue to take the place of the excess-profits tax. We recognize the importance of raising additional revenue, but if you must put a tax on business to raise it, it is our plea that you equalize the taxes on all business.

Mr. GARNER. Do you not think it would be equally advisable to repeal the taxes on jewelry and various other things, all these excise taxes, and leave the excess-profits tax where it is? Would not that be a debatable question?

Mr. LARTER. I do not think I would be qualified to answer that, because I have not gone into that phase of it.

The CHAIRMAN. I thought the gentleman was going to say that if he could get enough Republicans with him, he would repeal the excess-profits tax.

Mr. GARNER. I did not say that. I did say that we would join the Republicans in repealing your tax. I will tell him that.

Mr. LARTER. That is a promise: We want to try to convince them and convert them over to our plea this afternoon.

Mr. CHANDLER. Would it not be wise to exempt all jewelry stocks up to \$10,000?

Mr. LARTER. Gentlemen, just to sum up, briefly, I want to say this: The very foundation stone of our Government, as history tells us, is justice and equal taxation, and we appeal to you this afternoon for both, and if you grant both you can not but eliminate the excise tax on jewelry and the other industries, and if it is necessary for you to tax business, tax them all equally.

Mr. FREAR. You were quoted once in regard to some statement you made in Pittsburgh, and I wanted to see if this statement is right. You were then speaking of an association of jewelers and you are quoted as saying:

Do you know that the jewelers' vigilance committee has paid the jewelry trade's share of the expenses of the business men's tax committee, and this amount up to date for tax matters is in excess of \$27,000? About the 1st of January we sent over 35,000 letters to every jeweler in the United States, asking them to write their Congressmen and Senators in favor of the turnover sales tax and to send us contributions. Recently we selected 28 cities in the United States and prorated the amount we thought each city should contribute.

Was that statement correct? I understood that it was disputed?

Mr. LARTER. I am delighted to answer this question if you have a correct quotation of my speech, as I can not tell you exactly the words I used, but I am very glad to answer that in this way and tell you that some of the money that we raised, gentlemen, we have spent in helping the Government to get the tax from the jewelers. We have been to Washington time after time in connection with the Internal Revenue Bureau, and we would be very pleased to have you inquire there, because you will find that the standing of the jewelry trade is second to none. All of the money collected has been spent legitimately, and a large part of it was spent in printing primers to try and show the jewelers' trade how and what they should pay. The amount of money expended covers the four years in which the war-revenue excise taxes have been in force. I would like to add that these primers we have sent out have been used by the deputy collectors throughout the United States as to what the jewelers should pay in the way of taxes.

Mr. FREAR. It was paid out of the money received from these jewelers, then?

Mr. LARTER. Yes. Every dollar we have spent has been honestly and legitimately spent in the defense of an industry that has a record we are proud of and can honestly say can not be questioned.

MOTOR BOATS AND YACHTS.

GEORGE F. LAWLEY, BOSTON, MASS., REPRESENTING THE NATIONAL ASSOCIATION OF ENGINE AND MOTOR BOAT MANUFACTURERS.

The CHAIRMAN. Mr. Lawley, you are recorded here as representing the National Association of Engine and Motor Boat Manufacturers, is that right?

Mr. LAWLEY. Yes, sir; I come here, gentlemen, to see if it is possible to have eliminated the tax of 10 per cent for the building of yachts and boats costing over \$15.

Mr. TILSON. What section?

Mr. LAWLEY. Paragraph 20, section 900. The reason I ask this favor of you gentlemen is the fact that the revenue derived from that clause is very poor, with the result that you are putting our yachting industries out of business, and something must be done, if you want to hold on to that industry. At the present time the Herschoff Co., which you are all familiar with, has closed down. The Port Clinton Shipbuilding Co., which built 20 or 30 sub-chasers during the war, have closed down their plant, and the Lawley Corporation, which used to employ about 500 men is employing about 100 men now on repair work. I have not had an order on my books for a new boat for three months, and there has never been a time before that I have not had orders amounting to several hundred thousand dollars to use my force on.

Mr. FREAR. What is the difference between laying a tax on yachts and laying a tax on automobiles used for pleasure?

Mr. LAWLEY. It is a far different thing. Our yachting industry, to be sure, is only used by a small number, a very few, compared with automobiles. It is very unfortunate that they bring in the automobile and the yacht in the same connection. You may say that they are both used for pleasure. I will agree with you on that.

Mr. FREAR. I am speaking of their use for pleasure.

Mr. LAWLEY. I agree with you on that, but yachting is a pleasure that a man can get along without, and we can not get along without automobiles to-day.

Mr. FREAR. Is not the automobile displacing the yacht?

Mr. LAWLEY. Not at all; I do not think so. It has interfered somewhat with our business—there is no doubt about that—because you can take your family with you in an automobile, and your wife perhaps does not want to go on the water, but she will go through the mountains and ride everywhere she can think of.

Mr. FREAR. A yacht has a limited field that it can cover, whereas an automobile can go anywhere.

Mr. LAWLEY. You are perfectly right about that, but up to the present time there has been a large field for boats, and you must be familiar with what we did during the war. I have some statistics right here touching upon that.

Mr. LONGWORTH. Is not your great trouble not the tax but the immense cost of running a yacht?

Mr. LAWLEY. There is the cost of running a yacht.

Mr. LONGWORTH. Is not that very much higher than it ever was before?

Mr. LAWLEY. Yes; everything is higher than it was before. Your automobile is higher than it was before.

Mr. LONGWORTH. I am talking about the cost of the seaman and all that sort of thing.

Mr. LAWLEY. The cost of everything is higher, but it is trying to get back to normal again. But a very few of the men in this country will pay a 10 per cent tax on building a new yacht. For instance, on a boat costing \$100,000, which many of our houseboats will cost,

you would hate to pay \$10,000 tax for building that boat. Why? It is not necessary for you to have that expensive boat.

Mr. LONGWORTH. I understand it is not the cost of the boat, but it is the cost of maintaining it. The men I know that formerly owned yachts have given them up entirely because they can not afford to run them.

Mr. LAWLEY. They will build the boats if you will allow them to do it, but they will not pay 10 per cent for the sake of keeping my men employed during the winter.

Mr. LONGWORTH. They would not buy without the tax to-day.

Mr. LAWLEY. What is that?

Mr. LONGWORTH. It is not the tax that is discouraging them.

Mr. LAWLEY. It is. I will quote you the case of Mr. Black, of Baltimore. I had a contract all ready for him to sign for a house-boat costing \$100,000. He, not knowing about the tax, was quietly informed of the tax, and he came to me about it. He tried to have me split that tax with him, I to assume one-half and he one-half. I told him there was not that much money in the contract, and I could not do it. The boat has not been built. The plans are all out to-day.

Mr. LONGWORTH. That is an interesting case.

Mr. LAWLEY. There are several. Mr. Parke, of Parke & Tilford is standing on the fence to-day, and will not pay the Government a 10 per cent tax because they have not got to have it.

Mr. FREAR. What proportion of the yachts you build cost \$100,000, or anything like that amount?

Mr. LAWLEY. There used to be quite a few. I think the average cost of all those boats we built in former years would perhaps amount to \$50,000.

Mr. FREAR. If we reduced the tax, or took it off completely, do you believe the business would return to its old place?

Mr. LAWLEY. I am certain of it.

Mr. FREAR. And that this reputed competition of the automobiles would not exist?

Mr. LAWLEY. I do not think that has anything to do with it, not a thing, because most of our wealthy men have their automobiles anyway, and they have to have them, but they would like to have their yacht too, if they could get it within reason.

Mr. HOUGHTON. Do you build as many yachts in bad times as you do in good times?

Mr. LAWLEY. I do not think I ever felt the hard times as I have this time.

Mr. HOUGHTON. For instance, last year did you build a number of boats?

Mr. LAWLEY. I built a number of them last year.

Mr. HOUGHTON. You did build a number last year?

Mr. LAWLEY. A few, but not what I used to build.

Mr. HOUGHTON. What about the year before?

Mr. LAWLEY. Nor the year before. The business has been declining gradually until the present time.

Mr. HOUGHTON. Do you think that if times were good your business would be good?

Mr. LAWLEY. I am certain of it.

Mr. HOUGHTON. Even with the tax?

Mr. LAWLEY. No; they will not pay the tax.

Now, then, if you were getting a lot of money out of this thing I would not come here and ask you to repeal that law, and to show you what the effect is I will say that in 1918 our firm paid to the Government a tax of \$290,000; in 1919 I paid \$49,000.

Mr. LONGWORTH. That was not this tax; that was the excess-profits tax.

Mr. LAWLEY. The profits on my business.

Mr. LONGWORTH. How much have you paid of this tax, the 10 per cent tax?

Mr. LAWLEY. The owners pay this; it is their tax.

Mr. LONGWORTH. You pass it on to them. I mean how much would it amount to, as far as your business is concerned?

Mr. LAWLEY. It is not amounting to anything at the present time.

Mr. LONGWORTH. I am talking about what you have paid. How much would it amount to?

Mr. LAWLEY. I do not know that I can tell you that. I have not those figures with me.

Mr. LONGWORTH. If you simply added 10 per cent it would be the easiest thing in the world to figure that out.

Mr. LAWLEY. If there were no boats built——

Mr. LONGWORTH. I am quite aware of that fact. You need not impress me with the fact that you did not build the boats. I understand that. I am talking about how much you have paid since this tax has been in force.

Mr. LAWLEY. I do not know what I have paid. I have not those figures, but let me tell you this, which is taken from your books here in Washington, and you can verify it, that the excess-profits tax on motor boats and yachts from July 1, 1919, to June 30, 1920, was only \$212,000 in round numbers. That is all you got, and yet I paid a tax to the Government, when my business was good, amounting to more than that, but last year I paid no tax whatever to the Government, and this year I will pay no tax whatever to the Government, merely showing you what you are losing. The users' tax on the boats built amounted for the same period to \$864,122, but for building the boats, \$212,000. If you stop building boats you will get no excess-profits tax, as sure as you live. You have got to keep hens if you are going to get any eggs. That is the way I look at it.

There is another phase of this. When men have these big boats they are giving employment to the engineman, the upholsterer, the college man, the sailor, and the food man, and all along the line, and all that stops when your industry stops. But if you are getting any revenue out of this thing, as I said before, I would not come here.

Mr. LONGWORTH. The query is how much a 10 per cent tax affects that situation, and as I see it, the men that have owned yachts tell me it is not the original cost of the boat, but it is the cost of maintenance, under present conditions.

Mr. LAWLEY. That has not been my experience of 55 years. You will see in a brief that you gentlemen will get, perhaps by the next mail, from our association, that one man alone did pay a tax of \$135,000 for a yacht, and it did not phase him, but he is only one out of a million. You can not make a man build a boat and if you put too many fences around him he will not do it. If you do not want

the industry, at my time of life I can personally cut it out, I suppose, but I think it is a serious thing.

Mr. FREAR. Would a reduction in the rate improve the business?

Mr. LAWLEY. It will no doubt help, and you dropped down from 10 per cent to 5 per cent on automobiles. I did not know of this bill being before your committee when it was passed in 1918, or I should have protested at that time against it as a foolish thing to do, and I think it is important enough for you gentlemen to give it very serious consideration.

Mr. FREAR. You believe there would be more income from the tax, if it was reduced to 5 per cent, that is on account of the increased building?

Mr. LAWLEY. There would be more income from the users. There will be more boats built, and you will get a larger revenue from the men that use the boats. You see, you got last year four times the amount of money for using the boats that you did for the building of them. And I think there may be some little opposition about the manner in which you put the tax on the use of boats, but I did not come here to treat of that. I think you can perhaps make the results more equitable if you study it a little. I mean that on a 50-foot boat the tax is just 50 cents a foot, but on a 51-foot boat it is \$2 a foot. That is not quite fair.

Mr. FREAR. What section have you in mind there?

Mr. LAWLEY. That is under the excise tax, for just using the boats. I have not that. That was not so important. I do not think, as a rule, there is very much opposition, but there is some.

The CHAIRMAN. There is opposition to any tax. We have not had a man before us yet who is not complaining about these taxes.

Mr. LAWLEY. Mr. Chairman, I am fully aware that we have got to have money, that we have to do everything we can in order to meet our demands at the present time—I am fully aware of that—but you can not afford to stop your industries in order to do it.

The CHAIRMAN. I agree with you on that.

Mr. LAWLEY. You can not afford to do that, and if you are getting \$1,000,000 or \$2,000,000 out of this, I would never come here, but you are not getting anything that amounts to anything.

Mr. FREAR. Have you any suggestion in regard to this section that you have reference to, in regard to the length of the boats and the jumping of the tax?

Mr. LAWLEY. I think so. You had the Waterway League before your committee last month, I think.

The CHAIRMAN. Have you any suggestion to offer, Mr. Lawley, by which, if we take the tax off the users of yachts, we may get that money back in some other direction?

Mr. LAWLEY. You will raise that money, Mr. Chairman, by the increased use of yachts, and you will keep your men going that are on the streets to-day, and many of those men were getting money enough to pay a regular tax from their income.

The CHAIRMAN. Then, in your opinion, they do not want to pay the tax on the purchase price of the boat, but they are willing to pay the tax on using it?

Mr. LAWLEY. I think so; I guess there is no question about that. But make it equitable, if you can, and do not make one man pay \$50 for a 50-foot boat and \$200 for a 51-foot boat, because it is

hardly worth it. That could be changed by using tonnage, or in some other way. You can sometimes smooth things over by applying the medicine in a little different way. You would not like to take a dose of castor oil raw, but you can fix it so that you can take it.

Mr. FREAR. Your idea is that the boat builders would pay a larger income tax?

Mr. LAWLEY. Exactly. If I got business I would pay an income tax, but I am not paying any now. This is a far-reaching thing.

The CHAIRMAN. Then, if we took all the taxes off the corporations, we would get it back in income and dividends?

Mr. LAWLEY. I do not think the corporations are finding very much fault because you put taxes on them, if they can get any business to pay them, but if you take our business away from us, I do not care how much of a corporation tax you put on, if I have no business and can not make any money.

Mr. FREAR. In other words, you are willing to pay to the Government a part of your profits?

Mr. LAWLEY. Absolutely; and I think that any fair-minded American citizen is ready to do that.

The CHAIRMAN. Your business, as a corporation, pays both ways under existing law, by the corporation tax, and then you have got to pass on to the purchaser the tax you are speaking of?

Mr. LAWLEY. Yes.

The CHAIRMAN. So that the yacht builder's business pays two taxes?

Mr. LAWLEY. Yes; but there is another phase of this thing that has not been touched upon. During the war the Government bought in the yachting lines and took away out of the fleet 172 large vessels. They combed the whole country for them, and there were 282 loaned to the Government—that is, by paying \$1—and there were 15 chartered by the Government, making a total of 469 vessels that you took away from the yachters to carry on your war. Whether it was wise or not, I am not touching on that. We do not touch on that now. That has gone by. That has largely depleted your fleet of good yachts, with the attendant misfortune of unemployment.

Mr. FREAR. That means motor boats and all?

Mr. LAWLEY. Yes; motor boats and all. They were all above 40 feet and over, or 50 feet or over, because they had to be used for scout boats. A great many of those boats—in fact, most of those boats were more or less damaged, and some were lost at sea. One or two of the larger ones we built were lost in the North Sea, being sunk by torpedoes or something of that kind. That has removed those boats from the fleet. The owners want to build again. They were not reconditioned. The Government did not give a single owner enough by one-half, and perhaps not by two-thirds in many cases, what it would cost to recondition those boats, and they are now lying up in Boston in all sorts of conditions and they can not sell them. The Government took many of them over. These people have got to pay you the 10 per cent tax in order to build new boats to take the place of those old boats. Is it fair? I will ask any one of you gentlemen if that is a fair proposition, to take a boat from you and give you nothing for it practically—you give it to the Government for a long time, and then they destroy the boats, and make you pay a 10 per cent tax for building a new one?

Mr. FREAR. Well, we took boys and men away from their families at \$1 a day, and most of that was used for allotments and insurance; so, of course, war does not consider the question of fairness; it is a question of necessity that governs the country.

Mr. LAWLEY. What brought on these conditions I can not argue with you, but that was the condition of those boats, and I say it is wrong for you to put a tax of 10 per cent on a man for employing workmen and all that sort of thing to make a new boat for himself.

The CHAIRMAN. Mr. Lawley, there are a good many ways of saving money. You say those boats are all tied up that belong to the Government. We have a great merchant marine now of which we are very proud, and it is costing us \$2,000,000 a day loss every day we operate under Government control. The consequence is that the people have got to put up half a billion dollars a year to carry on this big merchant marine under Government control.

Mr. LAWLEY. Our merchant marine is one of those things that it would be pretty hard to straighten out.

The CHAIRMAN. It cost us \$510,000,000 in losses last year.

Mr. LAWLEY. Perhaps you can save this \$212,000 I am speaking of by cutting off some of these expenses, the same as we would in our own homes.

The CHAIRMAN. You can not cut off expenditures under Government management. The only way to do that is to sell the ships.

Mr. LAWLEY. If you are running them at a loss sell them, and the quicker you sell them the more money you save.

The CHAIRMAN. If they were mine, before I would maintain them at a loss of \$2,000,000 a day, I would give them away and save what I could from the wreck.

Mr. LAWLEY. Yes, save what you could from the wreck and wipe it off; but do not handicap your industries at a time like this. Men are walking the streets everywhere. A man can not build a house; he can not do a thing because it is costing so. So let us be reasonable and fair about a proposition of this kind. I do not think I am asking anything unreasonable.

Mr. GARNER. You just want to be relieved of the taxes?

Mr. LAWLEY. I want to be relieved of the tax of 10 per cent on the building of these boats, in order to keep our industries going, and on account of the fact that you are getting no revenue from it. That is the point.

The CHAIRMAN. It is not the tax you pay, but it is the tax that the man purchasing from you must pay, and he will not buy because of that tax? That is your argument?

Mr. LAWLEY. That is it exactly. The builder is the man who pays the tax. I do not pay it. But you can not make a builder come forward and place his order with that tax over his head.

Mr. GARNER. I think we ought to relieve the people of these taxes. We promised to do it last November in the election, and I believe it ought to be done.

Mr. LAWLEY. We all believe that.

Mr. GARNER. I believe these taxes ought to be repealed. We promised to do it. I think we ought to keep our word.

The CHAIRMAN. When a family moves out of a house, a dirty family that has occupied the house for eight years, no cleanly woman can clean it up in a few minutes. I know you can understand that?

Mr. LAWLEY. But I just had that same thing to do with the minister's house next door to me. I went right into it, and I did it right away, and did not fool around, and the minister moved in, and he is there now.

The CHAIRMAN. That is just what we are together here for now, to clean house, and that is the reason we are hearing you.

Mr. GARNER. I wonder if the chairman will promise you to clean house to the extent of repealing this tax? That is what you are interested in, is it not?

Mr. LAWLEY. That is what I would like to have you do, to have you promise to do that, Mr. Fordney.

There is another phase of this thing, gentlemen, and that is with respect to Toronto and Montreal, where the Canadians have removed their luxury tax, and now comes a new corporation advertising to Americans to come up there and get their boats built, saying, "You can get them built cheaper than you can in America, and there is no tax on your motors, or anything else here." That is what we are running up against.

Mr. GREEN. They have forgotten about some of the laws that would interfere with that.

Mr. LAWLEY. But if the Canadians are going to take our boat building away from America, what are we going to do now?

Mr. FREAR. What do they have to pay for bringing those boats in, boats manufactured in Canada?

Mr. LAWLEY. Fifteen per cent duty on the hull only.

Mr. LONGWORTH. There will be a lot higher duty on them in the next tariff bill.

Mr. LAWLEY. You are supposed to have a 10 per cent duty on the completed boat, and the machinery is more than half of the completed boat.

I do not think I am asking anything unreasonable, gentlemen.

Mr. LONGWORTH. You have made a very good case from your point of view, but the only thing that is bothering me is whether it is not the general business depression, plus the very greatly increased cost of running the yachts, that has discouraged most people?

Mr. LAWLEY. I do not think so.

Mr. LONGWORTH. I am told that it costs three times as much to run a yacht to-day as it did before the war.

Mr. LAWLEY. It is coming down all the time.

Mr. LONGWORTH. Wages and material and everything else are so high that nobody but the very richest man that does not care will keep a yacht.

Mr. LAWLEY. I have not run against that yet. Last year we used to pay \$200 for an engineer. I can get one of the best engineers in the country for \$125 now, running our motor boats and that sort of thing. That is quite a drop for one year. We do not think we are on the prewar scale just yet.

Mr. OLDFIELD. I think you would better make some of your arguments to this effect, that we need increased taxes, and we will have to revise this upward.

Mr. LAWLEY. You think so? It will not make much odds with me if you do increase the taxes, because there is no business. You can do just as you please about that.

Mr. COLLIER. The same argument they used in the campaign last fall.

Mr. LAWLEY. I realize you gentlemen are up against a pretty stiff proposition. I would not be in your shoes.

Mr. COLLIER. This side here is using the same argument they used.

Mr. LAWLEY. But I think you are all fair-minded gentlemen and will be as fair and right as you can in this matter. I rather think there was an impression among some of the members here that this game is a rich man's game, and that he ought to pay for it. I think that remark has been made before now, but I think they are mistaken on that, and I think it is a wrong motto to live up to, because there is not a man in the country that has got to have his boat. None of us has got to have a yacht.

The CHAIRMAN. The laboring man would be in a rather critical condition if we legislated business out of existence.

Mr. LAWLEY. Perhaps so. I did not get that.

I think I have presented the case as well as I know how. I do not know of anything I have not covered.

The CHAIRMAN. If you have a brief or anything that you wish to add to your statement, file it with the clerk, and we will have it incorporated as a part of your remarks.

Mr. LAWLEY. This brief, which you will receive a copy of, has something that may be of interest to you, but I trust you will give this, Mr. Chairman, you and your committee, very serious consideration, because I am deeply in earnest about this, and I represent about all the yacht builders in the country, and I know just how they are all situated.

**BRIEF OF THE NATIONAL ASSOCIATION OF ENGINE AND BOAT MANUFACTURERS (INC.),
RELATING TO A TAX UPON THE SALE OF YACHTS, MOTOR BOATS, ETC.**

Section 900, paragraph 20: "Yachts and motor boats not designed for trade, fishing, or national defense; and pleasure boats and pleasure canoes if sold for more than \$15, 10 per cent."

The National Association of Engine & Boat Manufacturers (Inc.) is an organization for the purpose of promoting the general welfare of its membership, which includes 151 industrial plants engaged in the manufacture of motor boats, engines, and marine accessories, located on the Atlantic and Pacific coasts and on the Great Lakes. Our boat-building plants represent an aggregate invested capital of \$15,000,000, and employ approximately 10,000 workmen. The association respectfully urges the repeal of the present tax of 10 per cent imposed by paragraph 20 of section 900 of the revenue act of 1913 upon yachts and motor boats not designed for trade, fishing, or national defense for the following reasons:

First. The tax has had a destructive effect upon the yacht and motor boat industry.

Second. As compared with similar taxes upon other industries, it is oppressive and discriminatory.

Third. It tends to discourage the use of yachts and motor boats and thereby will eventually destroy the Naval Reserve Force which was a valuable adjunct of the Navy during the recent war.

Fourth. The amount of revenue received from the tax is negligible.

Fifth. A greater amount of revenue would be obtained if the tax were removed.

DEPRESSED CONDITION OF MOTOR-BOAT INDUSTRY.

A comparison of the present condition of the motor-boat industry with that existing in 1913 will show conclusively the destructive effect of this tax. For the first nine months of the year 1913 the 15 largest builders of pleasure boats reported a total volume of business of \$1,528,802.15 as compared with a total business of only \$466,602.48 for the same 15 companies for the first nine months of the year 1919. Out of those replies received from the members of the association in response to its request for a comparative record of these two periods, there were seven companies which reported having no pleasure-boat business at all during the first nine months of the year 1919. From these statistics, it is plainly apparent that there has been a falling off of at least 70

per cent of the normal business transacted by our boat-building companies. In making this comparison, it should also be borne in mind that the year 1913 was not peak or banner year in the boat-building industry.

Because of the rapid advance in the last few years in wages and in the cost of material entering into the manufacture of motor boats, the selling price has of necessity been increased to a considerable degree. Yachtsmen generally have seemed unwilling to accept this increased burden in view of existing conditions, and the additional tax of 10 per cent has driven practically every prospective purchaser out of the market, and has been the direct cause of the cancellation of many orders, thus depriving the marine industry of a large proportion of its normal revenue.

During the continuance of the war the building of boats for pleasure purposes came to a standstill and our marine manufacturers faced the alternative of either taking on commercial work or going out of business. Introduced originally as a war measure, this particular tax provision would have aroused no opposition from the industry, inasmuch as all of the shipyards and marine engine plants of the country had either already engaged in necessary war work or were preparing to do so. Between the signing of the armistice in November, 1918, and the enactment of the revenue act in February, 1919, taxes that were to have been imposed under this statute upon other industries were either eliminated from the bill or materially reduced, while the tax proposed in the section relating to the sale of yachts, motor boats, pleasure boats, etc., was unchanged.

The present situation in the industry is made more acute by reason of the fact that during the recent war a large number of these boat-building companies considerably enlarged their plants in order to be in a position to serve the Government in the construction of submarine chasers, mine sweepers, barges, lighters, tugs, hydro-airplane hulls, and other work vitally necessary to the successful prosecution of the war. The 10 per cent tax placed upon the sale of motor boats at the close of the war became, therefore, an even greater blow to the industry because of the expansion of their plants and facilities and the absolute crushing of their hopes for a renewal of the normal volume of their business transacted in the prewar years.

This tax also bears with extreme hardship upon a class of citizens who made heavy sacrifices during the war.

A majority of the steam and power yachts over 40 feet in length were voluntarily surrendered by their owners to the Government for a nominal consideration, and were used for important naval service during the period of the war. In many cases, their owners also volunteered their services and entered the Naval Reserve Force. Although the Government was supposed to pay the owners of these vessels a sum sufficient to put them in the same condition as when they were taken over, the fact is that the Government allowance for repairs is so inadequate, in some cases not one-half of the cost, that the owners will not undertake to make the necessary repairs. The only recourse of the owners is to sell the vessels at a large reduction from their former value, and upon repurchasing a new vessel they are compelled to pay not only an increased price because of the increased cost of production but they are also compelled to pay a 10 per cent tax for the privilege of replacing the vessels which they sold or gave to the Government for war use. This increased cost of production is mainly due to the advancing prices of all material entering into the construction of vessels, including accessories and equipment, as well as to the increased and special taxes paid by the accessory and equipment manufacturers, which, being added to the cost, are included in the final price of the completed yacht or motor boat. When there is added to this price the 10 per cent tax upon construction as measured by the sale price of the vessel, the gross outlay becomes so great that owners are refraining from placing orders for new vessels and in many instances have written to the members of the association canceling orders which have already been placed because of this tax.

In addition, the present tax has a seriously detrimental effect upon the marine-engine industry. A large volume of capital and many thousands of skilled employees are engaged in the manufacture of engines for yachts and motor boats. A falling off of work in the shipyards of the country is at once reflected in the marine-engine works. There are about 170 of these engine works in this country, employing approximately 26,300 persons. Unless the industry is freed from the effects of this tax, their plants will remain upon a part-time basis, and their labor forces will be scattered to other mechanical industries, and years of constant effort will be required to again build up their disrupted organizations.

In addition to restricting the construction of yachts and motor boats, the present tax limits the opportunities for employment, which is the greatest economic need of the country at the present time. Yacht and motor-boat construction requires a highly specialized force of skilled artisans, and any governmental policy which tends to dis-

rupt their organization and prevent their employment should be avoided. There are at present about 215 yacht yards, which normally employ more than 10,000 workmen. Some of these employees have been working in these yards for many years, having entered as apprentices. For the last two years of the war Government work kept busy practically all these yards. However, with the completion of the Government work, these yards had to reduce their labor forces, and may yet be compelled to close down entirely, unless normal conditions are soon to prevail. With the present 10 per cent tax operating as an insurmountable obstacle to the acquisition of new business a, resumption of the demand for yachts and motor boats can not be expected, and at the present time the larger yards are doing practically nothing upon new construction because of the stifling effect of this tax. In one large yard the labor force has been reduced by 200 workmen because of the cancellation and withholding of orders for new vessels.

The need is apparent for the retention in their present vocations of the shipbuilders and other marine workers of the country. With the present stagnation in the boat-building business, directly attributable to this tax, these skilled mechanics are rapidly becoming absorbed in other lines of industry, and unless relief is soon obtained the marine industry of the country will be seriously threatened.

The financial resources of many of our members have been strained to the breaking point in an endeavor to hold together their organizations while awaiting relief from this intolerable condition. Unless this relief is adequate and speedy, the industry will disintegrate, and many of the existing plants will either devote their facilities to other lines of manufacture, or if this can not be done, will pass into the hands of receivers.

The association respectfully invites the attention of the members of this committee to the brief of the Waterway League of America in support of a users' tax on motor boats, in which the present situation is summarized in these words:

"If American yachting is to return within any reasonable time to its prewar condition, if the yacht yards and engine shops are to be permanently prosperous, and if the great army of workers in yacht and engine building and their allied industries are to be assured of regular and profitable employment, the tax on construction imposed by section 900, article 20, must be removed in its entirety."

This quotation is presented here because it represents the impartial opinion of persons who are familiar with the problems confronting this industry, but who are not directly or indirectly engaged in the business of yacht or motor-boat construction.

THE TAX IS DISCRIMINATORY AS COMPARED WITH OTHER INDUSTRIES.

The association has always believed that the motor-boat industry has been unjustly discriminated against by this provision of the revenue act of 1918. That the industry is unable to stand the strain of the 10 per cent tax is plainly indicated by the tremendous falling off in the business of the members of the association who for the past 18 months have been operating upon a basis of less than 25 per cent of their normal factory output. The motor-boat industry is practically one-eightieth of the size of the automobile industry when compared with reference to volume of invested capital, and employs only about one-thirtieth as many workmen. Notwithstanding this great disparity in the comparative size of the two industries, the motor-boat industry is taxed at the rate of 10 per cent, while the corresponding tax upon automobiles is at the rate of 5 per cent. While it is not contended that these industries are competitive in the ordinary sense, at the same time they both furnish the means for outdoor recreation, and if the motor-boat owner is prohibited by what he regards as an excessive tax upon his new boat, he will buy an automobile until such time as he feels that he can economically resume his trips on the water. In this sense, they are competitive and the imposition of a 10 per cent tax upon the motor-boat industry is a serious discrimination in favor of the automobile industry, which is only taxed at the rate of 5 per cent.

THE TAX WILL INTERFERE WITH THE FUTURE DEVELOPMENT OF THE NAVAL RESERVE FORCE.

Another vitally important effect of this tax is to prevent the training in time of peace of persons living on the coastal or inland waters of the United States in the use of yachts and motor boats, who during the recent war formed a valuable adjunct of the Navy. Yachtsmen and motor-boat operators demonstrated not only their readiness and willingness to serve the Government in the war, but their knowledge and ability gained through their experience in the handling of small boats was of immense value to the Navy Department in all of its branches. Not only by per-

sonal enlistment, but also by voluntary contribution to the Government of their yachts and motor boats and other serviceable craft, these men proved the value of their training on the water. Every possible encouragement should be given both by Congress and the executive branch of the Government to this class of men who may at any time in the future again be called upon to render active service.

The records of the Navy Department attest the fact that experienced yachtsmen were invaluable in the patrol and convoy service. Lloyds' Register of American Yachts for 1920 is authority for the statement that there were 438 yacht clubs in this country. A total of 1,675 yachtsmen from these clubs volunteered their services to the Government by placing their experience and skill as navigators, boatmen, etc., at the disposal of the country. Of this number 269, or about 16 per cent, served as officers of the Navy. In addition to the possible use of owners of motor boats in time of war, many of the officers of the merchant marine received their training in small boats in the coastal waters of the United States. The association cites this phase of the situation merely to bring before the committee the fact that this 10 per cent tax has a far-reaching and disastrous effect upon one of the oldest and most important industries, because it tends to discourage many persons who, were it not for this oppressive tax, would at this time be operating motor boats.

AMOUNT OF REVENUE DERIVED FROM THE TAX IS NEGLIGIBLE.

The volume of revenue collected by the Bureau of Internal Revenue from this source, according to its official statistics, has been exceedingly small. The figures covering the revenue received from the sales tax on motor boats are as follows:

	1919	1920
July.....	\$28, 148. 76	\$103, 539. 96
August.....	35, 721. 72	35, 721. 72
September.....	31, 029. 01	173, 470. 61
October.....	19, 986. 04	21, 996. 60
November.....	18, 663. 41	22, 333. 18
December.....	7, 200. 36	25, 119. 68
Total.....	140, 749. 30	382, 181. 75

On the users' tax there was collected during the first six months of 1920 \$256,128.01, and for the last six months of 1920 the sum of \$500,170.81, making a total of \$756,298.82 for the calendar year of 1920. It can thus be seen that by adding the revenue from the users' tax to the revenue from the sales tax the Government collected from these sources in 1920 about \$1,250,000.

During the year 1920 the Consolidated Shipbuilding Corporation paid a tax of \$135,000 on a single yacht, leaving the balance of the tax for that year, to wit, \$320,245.51, to represent the tax from all of the other boat-building concerns of the country.

REMOVAL OF THE 10 PER CENT TAX WILL YIELD GREATER REVENUE.

From a study of the present condition of the motor-boat industry, it must be apparent that no large amount of revenue can ever be obtained from this source because the present tax on new construction violates the fundamental rule that a tax should not be imposed which destroys its own source of revenue. As long as the present tax is retained, the motor-boat industry must remain in its present stagnated condition. If removed, the industry will revive as general business conditions improve. Unless the industry is in a prosperous financial condition, the Government can not obtain revenue from it either by means of the present tax upon new construction or from income or profits taxation. A far greater amount of revenue would undoubtedly be obtained from the industry through the income tax paid by these concerns and their employees through the income and profits taxes than has been obtained from the present tax, which has not only failed to yield a satisfactory amount of revenue to the Treasury but has also by cutting off orders for new construction of yachts and motor boats placed the manufacturers in a condition of stagnation which has prevented the Treasury from receiving its fair share of the profits of this industry. From the standpoint of the amount of revenue fairly due to the Treasury Department from this industry, the association unhesitatingly takes the position that by stimulating the sport of yachting and motor-boating and by increasing their use by the people, the Treasury will, under whatever system of taxation this committee is about to formulate, receive annually a far greater amount in one year than has been collected under this 10 per cent tax.

CONCLUSION.

This association asks for no preference or special exemption. Its members realize that the vast war debt must be paid by means of heavy taxation. It firmly believes in the equal distribution of the cost of government and is willing to pay its fair share of the cost of winning the war. However, it urgently requests the removal of this oppressive, unequal, and discriminatory 10 per cent tax to permit the reestablishment of the yacht and motor boat industry upon a firm financial and industrial basis, to permit thousands of our citizens to enjoy the physical benefits of healthful recreation upon the coastal and inland waters of the United States and to assist in the upbuilding of a force of trained yachtsmen and motor-boat navigators who will ever stand ready to again give their vessels and their services, if necessary, for the future defense of the country.

GEORGE F. LAWLEY,
Chairman Legislation Committee.

IRA HAND, SECRETARY NATIONAL ASSOCIATION OF ENGINE AND BOAT MANUFACTURERS.

Mr. HAND. Mr. Chairman and gentlemen of the committee, I simply wish to emphasize the figures Mr. Lawley has given you and the conclusion the builders have come to, that if this insignificant amount that the Government has realized from the 10 per cent tax on the sale of yachts, motor boats, etc., according to the Internal Revenue Department's reports for the fiscal year ending June 30, 1920, of \$212,813.06, is eliminated entirely in your revision of this tax situation, your income from your user's tax, which was \$864,123.24 over that entire period will be very materially increased, because more boats will be built. If the boat-building industry is thus stimulated your revenue from the corporation income tax as it may exist after your revision, and your income from employees in the shipyards who will flock back to work eventually, together with your income from the stockholders of these yards, will also show a very marked increase over the present revenue from these sources and will more than counterbalance the total income you received during 1920, amounting to about \$1,250,000, from the sale of yachts and motor boats and from the users' tax combined. Our conclusion is that you will find this to be the case if, in your revision of the present revenue act, you eliminate this first obstacle that stands in the way of the purchase of a yacht or small motor boat.

Mr. TILSON. Have you any antidote to prevent our friends on the Democratic side from going out and shouting themselves hoarse that we are taking a tax off the rich man's product and putting it on the poor man?

Mr. HAND. I think that is the antidote. In Mr. Longworth's own territory, the Mullins Boat Co. in 1913, a prewar year, sold something like 2,500 or 2,600 small boats. Those boats did not cost more than \$300, \$400, \$500, or \$600 apiece, equipped, for boat owners of moderate means to take their families out for the week end or for a week's outing.

Mr. CRISP. How much of a tax did they pay?

Mr. HAND. Ten per cent, just the same as the larger yacht, and where there is one yacht of any size, where the tax is of any significance in dollars and cents, there are thousands of small boats. You are absolutely legislating against the prospective owner of a small boat, because when he compares the price of a small boat together with his 10 per cent tax against the price of a small, cheap car and a 5

per cent tax, he unhesitatingly turns to the car. We maintain that your governmental income will be vastly increased by permitting the yacht builders to get back to their normal capacity and employ their normal number of men as soon as they possibly can.

I believe Mr. Longworth has had communications from the Mullins Co. on that same subject. They represent the poor man's side of the situation as well as the rich man's. It is not a rich man's toy by any means. The percentage of rich men's toys is mighty small by comparison with the number of small boats in use.

Mr. TILSON. Is there any hope of the price of the small boats coming down to within the reach of the ordinary man?

Mr. HAND. There has been a reduction within the past three months, and there has been a reduction in the marine equipment that goes into those boats, but on top of it all, when you add the 10 per cent tax we are almost as badly off as we were before. If this 10 per cent tax were removed, we could go out into the open market and compete with any other sport in existence, and the return to the Government in revenue would be greater than you have ever received, or ever will receive under existing tax conditions.

MOTION-PICTURE FILMS.

SAUL E. ROGERS, NEW YORK CITY, VICE PRESIDENT OF THE FOX FILM CORPORATION, REPRESENTING THE NATIONAL ASSOCIATION OF THE MOTION-PICTURE INDUSTRY.

Mr. GARNER. State to the committee your name so the committee can hear who you are and whom you represent.

Mr. ROGERS. Saul E. Rogers. I am vice president of the Fox Film Corporation, but I am here representing the National Association of the Motion Picture Industry.

The CHAIRMAN. Where is your home?

Mr. ROGERS. New York City.

I believe that my remarks will be considerably shortened by the talk that Mr. Emery has just given, representing the National Association of Manufacturers. The National Association of the Motion-Picture Industry has been cooperating in its efforts with the Merchants Association and the National Manufacturers' Association.

We are in complete accord on this question of war excise taxes. So far as our industry is concerned, we are subject to every kind of possible legislation from the States, the municipalities, and the Federal Government, and it has now come to the point where the State governments are following the example set by the Federal Government, in their taxation, using the same forms, and even the same amount and percentages that the Federal Government uses.

Now, we have to pay every tax that any other industry has to pay, and in addition we have in the motion-picture industry the so-called 5 per cent film sales tax. It is really a film sales tax. In other words, we must pay a tax of 5 per cent on all film turnover from the distributor or producer to the exhibitors.

And if the sales tax is a vicious one or is undesirable in any respect, all arguments that would hold good with regard to other industries would hold good with regard to the motion-picture industry.

In the various States in the Union where they have a censorship there is a very heavy censorship tax being paid. Under the last bill

in New York it is \$3 on each thousand feet, with an additional tax of \$2 per thousand feet to reach additional copy circulated throughout the United States. And in addition to that, not only are we compelled to pay the tax, or censorship tax, to be paid on all films which shall be released subsequent to August 1, 1921, when the censorship law goes into effect, but every film produced prior to August 1, from the very beginning of the industry, must pay the tax if those films are reissued. We will have to pay the tax on those films. We will have to pay a tax on those films of \$2 per thousand feet.

Mr. GARNER. I think you are right. A Democratic Congress put this tax on in time of war. We put it on as a war tax, we put it on in time of war, with the aid of our Republican friends, because it was a good tax in time of war—

Mr. GREEN (interposing). They would repeal their own tax.

Mr. GAGNER (continuing). The Democrats were going to repeal this tax if they had gotten in power; but what I want to ask you with regard to this tax is, What taxes have you? In the first place, you have a seating-capacity tax.

Mr. ROGERS. In the first place, we have a seating tax.

Mr. GARNER. Then you have a 5 per cent sales tax—

Mr. ROGERS (interposing). Then we have a 10 per cent admission tax.

Mr. GARNER. Yes; the 10 per cent admission tax.

Mr. ROGERS. Then we have the 5 per cent sales tax.

Mr. GARNER. You have three different taxes?

Mr. ROGERS. Yes, sir; all excise taxes.

Mr. GARNER. Yes. All of these taxes were put on during the war, were they not?

Mr. ROGERS. They were all put on during the war, but they are on yet.

Mr. GARNER. You are perfectly willing to have an income tax, and if you are a corporation you are perfectly willing to pay a corporation tax, if we would simply repeal the war taxes levied on you during the war, and you are perfectly willing to pay an individual tax on any money that you make out of the motion-picture business?

Mr. ROGERS. I think that we are perfectly willing to take the same position as Mr. Emery has now taken, and that we are willing to pay all ordinary corporation taxes.

The CHAIRMAN. To what extent have those taxes interfered with the volume of your business?

Mr. ROGERS. I will give you that immediately. I intended to come to that in a minute. I will tell you just how—

The CHAIRMAN (interposing). I notice down here on almost every evening as I go home people are standing in line at the theater, one of two hundred of them, and sometimes more, waiting for an opportunity to buy tickets.

Mr. ROGERS. I do not think, Mr. Chairman, that you are going to find that condition exists throughout the United States to-day generally.

Now, the actual condition to-day of the motion-picture industry in this country is that there are approximately 14,500 so-called motion-picture theaters in the United States and during the past three months over 4,000 have actually closed their doors.

Mr. FREAR. That is on account of the business depression?

Mr. ROGERS. No, not——

Mr. FREAR (interposing). Is the \$500,000 salaries paid to some of the motion-picture stars having any effect on your business?

Mr. ROGERS. That has no more effect upon them than the \$250,000 that Mr. Jack Dempsey received for fighting Carpentier.

Mr. FREAR. But he only fights once in a while, but your business is continuous, and there are a great many actors and actresses—and Dempsey only fights once in a while, whereas these shows are being showed continuously.

Mr. ROGERS. He only fights once in a while, but that does not affect the situation.

Mr. FREAR. And he pays his royalty.

Mr. ROGERS. And so do the film stars, but that is not a real answer to the question. The real answer to the question is this, that question has been propounded to me time and again, and I am glad of an opportunity to answer it. Now, you must bear in mind that our industry is an infant industry. It suddenly rose and it suddenly grew—at one time we thought beyond almost possible human proportions.

In the course of that growth we had a few so-called high-class motion-picture stars who were receiving high salaries.

There was one Mary Pickford, one Charlie Chaplin, and one Douglas Fairbanks.

Mr. YOUNG. And now they have combined.

Mr. ROGERS. And you may mention on the five fingers of your two hands the motion-picture stars who were receiving those exorbitant salaries.

Now, just what happened is that they—and why they did receive those high salaries—and the answer was this, the fact was that there was a public demand for those particular stars. It was not because they were possessed of remarkable intellect or ability or even more than normal ability, but for some unaccountable reason the motion-picture fans demanded them in the same way that baseball fans demand high-priced pitchers and high-priced batters.

Mr. FREAR. Do you not suppose that your advertising campaigns conducted by your organizations has had some influence on the public mind?

Mr. ROGERS. It had in a measure. It was an error. There is no question about it, we made our mistakes the same as other infant industries did.

Now, let us see the results. They made demands, and their demands were complied with. They were not requests, they were demands. The other producing companies came into the market and they immediately entered into open competition for the services of these high-salaried stars, for the services of these few so-called stars, and these stars then saw their position and as a result of that they continued to gouge, and gouge, until finally the companies by which they were employed said, "We can not meet your demands any further." They could not meet their demands and make any profit under their tremendous overhead of production. They were using them as leaders in order to enable them to dispose of their other products.

What happened? Pickford and Fairbanks and Chaplin each formed their own companies, did their own production, owned their own studios, and combined in the distribution of their products to

the exclusion of the rest of the industry. They went out independently and that was the reason, because they had arrived at a point where the producers could not afford to pay their salaries and go on and they had to go out to themselves, because their salaries were exorbitant.

The CHAIRMAN. Is your business in a worse condition financially than that of other business throughout the country?

Mr. ROGERS. Indeed it is.

The CHAIRMAN. Tell us how it got that way, please?

Mr. ROGERS. When 33½ per cent of the theaters are actually closed——

The CHAIRMAN (interposing). There are 5,000,000 men idle in the United States.

Mr. ROGERS. And we contribute to that idleness. There is not a single studio in operation in the East except the Fox Film Corporation. The Famous Players and the Lasky Players have closed their studios and they intend to keep their studios closed until next year.

The Metro Co. closed its studios in the East only a few days ago.

Mr. FREAR. But George M. Cohan closed the doors of some of his theaters. Is it not true that the legitimate theater business is affected by the business depression of the country, as well as your business?

Mr. ROGERS. It certainly has had a great deal to do with it, yet not more than the operation of the Government taxes themselves.

Out in California, from the letters I have, a large part of the production that was carried on in that part of the country is cut down now to practically only 30 per cent of normal production.

The CHAIRMAN. The production of the motion picture may be a necessity, but it is not quite so necessary as the production of bread and butter.

Mr. ROGERS. It may not be quite so necessary——

The CHAIRMAN. For that reason then it might be better to tax them than to tax some of the industries that produce the necessities of life.

Mr. ROGERS. But the fact that I am pointing out now, Mr. Fordney, here is that we have got down now to the lowest possible ebb ever known in any industry, and we have got down now—we do not have the figures prepared yet, but we are down to 15 per cent of the production of normal times and we can not live on that basis of production. There is no question about it.

I am talking about facts, facts I know. I have lived with this industry, and I have gone through it during past years.

During the past year there was only one film producer out of the entire aggregation that was able to pay a dividend to its stockholders.

It has gotten to the point that when an exhibitor comes into our sales department these days the question is not propounded to him now as to what business we can do with him, but the first question is, "Are you after a cancellation of your contract or are you here for a readjustment of your contract price?"

That is the first question. We know that is what they have come for.

Mr. FREAR. That enters into the business transactions of the importers in this country, with all people abroad, very generally—cancellation of contracts—as well as in your industry.

Mr. ROGERS. Well, we sympathize with them just as heartily as we hope they sympathize with us.

But, gentlemen, we have got to a point now where this shifting of taxes can not be shifted any more. And our industry is at its lowest ebb. That is evidenced by the fact they are not only canceling contracts, but closing theaters all over the country to-day.

The CHAIRMAN. Have you any figures here to show the committee the amount of taxes that would be lost if we should repeal this tax; if this 5 per cent tax should be repealed?

Mr. ROGERS. Yes; we have got the 5 per cent sales tax and the 10 per cent admission tax and the seat tax.

The CHAIRMAN. That is under section 902.

Mr. OLDFIELD. What taxes are you paying now?

Mr. ROGERS. The 5 per cent film tax, I believe that is shifted.

Mr. OLDFIELD. How about the seat tax?

Mr. ROGERS. The seat tax is paid by the theater and the 10 per cent admission tax is paid by the public.

The CHAIRMAN. Are you speaking of the tax on films or the admission tax, or on all such taxes?

Mr. ROGERS. I am speaking of the picture-film tax and the admission tax, both. Those are the two that are now levied that affect us most, all of the way—

Mr. OLDFIELD (interposing). Who pays the 10 per cent tax, and also the 5 per cent tax?

Mr. ROGERS. Sir?

Mr. OLDFIELD. Who pays the 10 per cent tax and the 5 per cent tax?

Mr. ROGERS. The film producer pays the 5 per cent tax. The 10 per cent tax under the act is paid directly by the public.

Mr. OLDFIELD. Now, what is the seating tax?

Mr. ROGERS. The seating tax is paid by the owner of the theater, and I presume that the theater passes that on, too.

Mr. OLDFIELD. What is that?

Mr. ROGERS. That tax is from \$50, according to the seating capacity, and runs on up to, I believe, \$250.

The CHAIRMAN. The gentleman has occupied about 10 minutes.

Mr. ROGERS. I wish to answer your question. You have asked what we would tax if these excise taxes were not levied, what we would recommend. I have to make this recommendation. In lieu of the income derived from these excise taxes, my answer to that is that the only other measure that I can think of, and I have considered this matter very carefully, is the sales tax or commodity tax.

The CHAIRMAN. So that the other fellow will pay it, and you will not have to pay it.

Mr. ROGERS. No; we would be paying it as well as the others.

Mr. FREAR. But that would be a tax on necessities, and this is a tax on pleasure.

The CHAIRMAN. Every man that comes before the committee asks that he be relieved of his taxes and that they be shifted to the other fellow.

Mr. ROGERS. No; but we would be paying this. We have got a turnover of \$125,000,000 a year.

The CHAIRMAN. If this money must be raised and your industry relieved, where would you go to get it that would be more equitable?

Mr. ROGERS. We are going to pay our part of that, Mr. Chairman, and a very large part of it, too.

The CHAIRMAN. The gentleman's time has expired. If you wish to continue with another man, unless you are willing for one man to consume all of the time we will have to limit you, because we have a large number of people here to-day that want to be heard, and we want to close the hearings to-day.

Mr. ROGERS. There is just one more thing that I want to call to your attention before I leave the subject entirely, and that is the inequality and the inequity of the burdening of these excise taxes, and putting them onto a handful of industries. It should be more fairly apportioned throughout all industries of the country, and it should be spread over a greater area, and so far as we are concerned I do not see any reason why a mere handful should pay all of these excise taxes.

I can not defend the excise taxes on any principle whatever.

The CHAIRMAN. How much revenue is received by the Government from these taxes; do you know?

Mr. ROGERS. I think it is very material; approximately \$84,000,000 on one and about \$6,000,000 on the other tax, making \$90,000,000 gross, Mr. Chairman.

The CHAIRMAN. If that is all, you can file such additional statements in your brief as you wish and submit it to the clerk, and if it is not a duplication we will have it printed in the hearings.

H. B. VARNER, CHAIRMAN LEGISLATIVE COMMITTEE OF THE NATIONAL ASSOCIATION OF MOTION-PICTURE THEATER OWNERS OF AMERICA.

Mr. VARNER. Mr. Chairman, I am chairman of the Legislative Committee of the National Association of Motion Picture Theater Owners of America, which represents 80 per cent of the motion picture theaters of this country. We are here to ask you, of course, to repeal this 5 per cent film tax and the seating capacity tax, as well as the admission tax.

The CHAIRMAN. In other words, to relieve the theater industry from these taxes?

Mr. VARNER. Yes, sir; from that part of it. And I just want to reiterate what Mr. Rogers has said, that the industry is in a very bad condition; that there are more than about 35 per cent of the theaters closed, and those that are in operation are losing money. There are not 100 theaters in America to-day that are making expenses. They are in a miserable condition, and we are just drifting from bad to worse.

This film tax is very burdensome and can not be passed on. Of course, the admission tax is passed on to the general public, but the theaters pay the film tax, and are compelled to pay the seating capacity tax. There is no way out of that. We are paying greater taxes to-day than any other industry that I know of in this country. We pay the 10 per cent tax and the 5 per cent tax, which really means another 50 per cent tax, because the 5 per cent tax on films means really about a 50 per cent tax, so that we are really paying in Federal taxes something near 20 per cent of our gross income.

If you can not do all that we ask, we want you to do the best you can for us. At least, we want the tax on the seating capacity and the film tax repealed, because it is impossible to pass it on. We do not

want to take up too much of your time, because we know you are very busy, but if there are any questions you desire to ask, I would be very glad to answer them.

Mr. COLLIER. How is the general attendance, as compared with last year?

Mr. VARNER. Very poor, only from about 20 to 30 per cent of normal.

Mr. OLDFIELD. How many motion-picture theaters have closed in New York City in the last few months?

Mr. VARNER. I do not know.

Mr. BERMAN. The entire east side closes on August 1, about 150 theaters. In the State of New York to-day, out of about 1,200 theaters, there are about 500 of them closed now. In Buffalo all the film theaters have closed.

Mr. VARNER. The attendance is away down. The attendance is off from 50 to 80 per cent.

Mr. FREAR. Can you tell how many theaters you had in existence five years ago in New York City, so that we could ascertain just what the increase has been?

Mr. BERMAN. In New York City we had about 1,800 theaters.

Mr. FREAR. Five years ago?

Mr. BERMAN. Yes, sir.

Mr. FREAR. How many have you now?

Mr. BERMAN. In the city of New York to-day we have about 495, sir. They have decreased in New York City on account of the coming of the larger sized houses, eliminating some of the smaller houses.

Mr. FREAR. They are building some theaters there, are they not?

Mr. BERMAN. There are very few under construction.

Mr. FREAR. I know they are building them just as they are building them in this city, and, of course, the larger theaters accommodate larger audiences.

Mr. BERMAN. But do you realize that 80 per cent of our industry to-day consists of the little man who has a house containing from 600 seats down? We are not talking about the theaters you see on Broadway, the Rialto and Rivoli; so when you picture the motion-picture industry do not get that confused, that 85 per cent of our industry to-day comprises the little neighborhood houses which have been struggling hard in normal times.

Mr. FREAR. That is practically the condition described to us by the gentleman who last spoke, Mr. Emery, who showed that the greatest sufferers in the manufacturing industry are the smaller manufacturers. So you are suffering like every other business. Your condition just reflects the general condition of business.

Mr. COLLIER. In the larger theaters the attendance has not fallen off, has it?

Mr. VARNER. Yes, sir; it has fallen off considerably in the larger theaters. Some few theaters, probably 50 or 75 theaters, are making expenses in the United States; they are very rare indeed.

Mr. CRISP. Do you attribute the falling off in the attendance largely to the general depression in every line of industry, or to the special taxes levied against the motion-picture business?

Mr. VARNER. Surely, on account of the general depression. The people have not got the money, and they can not go.

Mr. OLDFIELD. Is not this also true, that you have increased the price for theater tickets a great deal since the war?

Mr. VARNER. Yes, sir.

Mr. OLDFIELD. Have you decreased the price any? I know that in New York at some of the picture houses you have got to pay 55 cents for a seat.

Mr. VARNER. A great many of them have decreased the price.

Mr. OLDFIELD. If you decreased the price of your tickets, your attendance would be larger, do you not think so?

Mr. VARNER. We have tried that. We have decreased the price of tickets at some of the theaters, and those same theaters have been compelled to close. A great many of the theaters which are in operation to-day are running only one, two, or three days in the week. They are in a very deplorable condition, a worse condition than any other line of business.

Mr. COLLIER. How has the attendance been in the smaller towns where they only have one or two small theaters?

Mr. VARNER. It has been worse in the small towns than it is in the large cities.

Mr. COLLIER. There are some towns where they only have one or two theaters, and they do not have shows every night in the week, I think.

Mr. VARNER. Yes. I have a theater in one town, the only theater I own, and we made expenses until June. In the month of June we lost money, and did not make enough to pay expenses.

Mr. FREAR. Here is a question that might be of interest to the committee: How much do you pay for your films; that is, for these star performances?

Mr. VARNER. That depends on the size of the town. The films are sold according to the population of the town.

Mr. FREAR. Take one of these Pickford, Fairbanks, or Ray pictures.

Mr. VARNER. The price ranges from \$25 on up.

Mr. FREAR. For a performance?

Mr. VARNER. No; from \$25 to \$1,000 per day.

Mr. COLLIER. The smaller towns get them later too, do they not?

Mr. VARNER. Yes, sir.

Mr. COLLIER. They do not get them at the same time that the larger cities get them?

Mr. VARNER. No.

Mr. CRISP. About what is the life of one of these films?

Mr. VARNER. It depends on its usage. In from 60 to 90 days it is worn out. If there are any other questions, I would be glad to answer them if I can.

A. JULIEN BRYLAWSKI, MEMBER EXECUTIVE COMMITTEE NATIONAL ASSOCIATION OF MOTION-PICTURE THEATER OWNERS OF AMERICA.

Mr. BRYLAWSKI. Gentlemen, I want to be very brief. I want to give you one thought. I want to just emphasize for one moment the unreasonable burden of the 5 per cent film tax and the seat tax which the theaters are suffering from to-day, and to say to you that a large number of the theaters that are closed, and the larger number of theaters that are going to close on August 1—and that is not mere hearsay, because I know of my own knowledge of five theaters that will close next week—I want to say that a great deal of that distress

that they labor under, which necessitates their closing, can be alleviated by the reduction of those two taxes.

The idea of you gentlemen here, I take it, is to provide revenue for the Government. I call attention to the figures, showing that the admission tax receipts of the Government last year were nearly \$80,000,000, whereas you received from the 5 per cent tax and the seat tax scarcely \$6,000,000. The figures are nearer \$5,500,000. Thought: If by relieving the burden on the theaters you permit a percentage, large or small, of the theaters that are closed and closing to reopen, will not the Government gain a great deal more in revenue from the admission tax than it does by keeping them closed at the present time?

I thank you.

WILLIAM A. BRADY, PRESIDENT NATIONAL ASSOCIATION OF MOTION-PICTURE DISTRIBUTORS OF THE UNITED STATES.

Mr. BRADY. I am president of the National Association of Motion Picture Distributors of the United States and have been for the last five years. The National Association represents the producers, the distributors, and the equipment men; in other words, it represents the commercial side of the motion-picture industry, and it represents some theaters. These other gentlemen represent what is known as the Theater Owners' Association, and I represent the producers and exhibitors. I may say that I am probably one of the oldest theatrical men in the United States. A great part of my life was passed in the legitimate theaters, but with the coming of motion pictures I drifted into that.

I should like to answer Mr. Frear's question, when he referred to the salaries of motion-picture actors. I wish to assure him that exorbitant and extravagant actors' salaries have entirely ceased in the last 12 months.

Mr. FREAR. Is not that due to the fact that some of these people have combined now and are running their own business?

Mr. BRADY. They have not combined. They do what any American citizen has a right to do. They go into business for themselves, use their own money in the production of films, promote the sale of them for themselves, and if they make such a large amount of money nobody has a right to complain.

Mr. FREAR. Is not the answer to your statement that these salaries are not paid any more the fact that they have taken advantage of the publicity you people have given them and now they are capitalizing it?

Mr. BRADY. Partially so, but another answer to the question would be that the depression in the motion picture industry has become so serious that it was absolutely essential that salaries of that kind should be eliminated. You must also remember that these people do not rely entirely upon the United States and Canada. Mary Pickford would stop the traffic in Tokyo; Mary Pickford stops the traffic in Paris, in London, or in Berlin. They do not get all this money from the United States of America; they get it from everywhere in the world. Charlie Chaplin is as well known in China as he is in New York.

Mr. FREAR. That is due to legitimate advertising?

Mr. BRADY. The legitimate advertising was not done by American advertisers in Japan, China, or South America.

Mr. FREAR. Do not the American interests own any part of the moving pictures there?

Mr. BRADY. Not at all.

Mr. FREAR. That is all carried on by foreigners?

Mr. BRADY. These people operate entirely for themselves. They form their own companies. Just two years back they operated under enormous salaries.

Mr. FREAR. Prior to that time, when they were exported abroad, did not the American picture owners have some interest in these foreign pictures?

Mr. BRADY. Right; but the salaries were not extravagant at that time.

Mr. FREAR. What would you call an extravagant salary for a motion-picture actor?

Mr. BRADY. I have often been asked that question by members of the Ways and Means Committee and Members of the Finance Committee of the Senate, and one Senator said, "How can you come in here and ask for a reduction of this tax when you pay Mary Pickford \$1,000,000 a year?" My answer was, "Mary Pickford pays \$400,000 of that salary to the Government. If Mary Pickford was capable of earning \$1,000,000 a year, she has paid somewhere between \$300,000 and \$400,000 of that salary to the Government."

Mr. FREAR. What do you call an extravagant salary?

Mr. BRADY. I call that an extravagant salary, anybody who gets \$1,000,000 a year; but if everybody else could earn \$1,000,000 a year, perhaps their salaries would not appear so extravagant.

It is said that in one year Charles Chaplin was reputed to have received \$1,200,000 for his year's work, and that the people who distributed his pictures throughout the world made over \$1,000,000 profit, or considerably over that.

Mr. FREAR. Are those figures real? Do they get those salaries?

Mr. BRADY. Not any more.

Mr. FREAR. Did they in the past?

Mr. BRADY. Charlie Chaplin got so much cash for the delivery of a negative, and so much interest in the profits, and it was computed that in a certain year his salary and his profit reached \$1,200,000; but at the same time the person who distributed his pictures throughout the world made \$1,500,000.

You spoke of George M. Cohan. George M. Cohan did not close his theaters because of the depression. He closed his theaters and his business as a protest against the closed shop.

Mr. FREAR. But that really gets back to this question of the depression. These employees felt that they were not getting enough money, so it relates back to the question of the depression.

Mr. BRADY. No; that was not the case at all.

Mr. FREAR. They refused to accept a reduction in salaries.

Mr. BRADY. I beg your pardon. Mr. Cohan said that the theaters of the United States could not exist and the art of acting in the United States could not exist where any group of men could tell you that nobody could play in your play unless he was a member of a

certain association. That is why George Cohan quit, because he thought his rights as an American citizen were being trespassed upon.

Mr. FREAR. There is no criticism of Cohan in my remark.

Mr. BRADY. You spoke of motion pictures not being essential, Mr. Chairman. You said that bread and butter and the necessities of life were more necessary than motion pictures. I am going to admit that 25 per cent, but I am going to say to you, Mr. Chairman, that motion pictures have become a great part of the life of the poor people of the United States. It would be a very wise thing for the United States Government to investigate the good that the pictures are doing throughout the United States.

The CHAIRMAN. They have got more investigations now than they can take care of.

Mr. BRADY. Quite true, and we would like to have some of the investigations of our business cease.

Mr. FREAR. What is your particular interest in motion pictures? It is financial, is it not?

Mr. BRADY. Financial. I make pictures.

Mr. FREAR. Computed in dollars and cents, what is your interest?

Mr. BRADY. I will give you my last experience in motion pictures. I made a picture last year, about three or four or five months ago, called "Life," which cost me about \$100,000 to make, and luckily I did not have to borrow the money; I had the money. After trying to sell it for four or five months, I finally turned it over to a distributing agent, received no money in advance, and will have to wait 18 months longer for the payment of my \$100,000.

Mr. FREAR. We have heard about these losses frequently, but, of course, every one knows that you are taking that as an exceptional illustration. What has been your profit?

Mr. BRADY. Well, I got \$50,000 one year as the general director of a motion picture company, and I got \$100,000 a year another year as general director, but I made 52 pictures in a year, and I knew no hours.

Originally, I was largely interested in the legitimate theaters, and if you gentlemen want to ask any questions about the legitimate theaters in the United States, I appear for that association and am authorized to answer for them.

Mr. FREAR. There is a question. Do you consider that there should be the imposition of any tax on the legitimate theaters?

Mr. BRADY. I think that the 10 per cent tax was put on as a war measure, and surely there is no Representative in this room who will dispute the fact that throughout the war the theater and the motion picture did their bit, and there has been no charge of profiteering; there has been no investigation. It was put on as a war measure, Mr. Chairman.

Mr. TILSON. But you realize that we have got to pay for the war?

Mr. BRADY. Quite right, but you do not want to pay for the war by driving a big industry out of business. Remember what Mr. Rogers told you. The gentlemen here from Connecticut have put a 5 per cent admission tax on us. It is proposed in other States. New York has just passed a censorship bill which requires one company to pay \$60,000 back censorship bill for pictures that have been on the market three or four years. We are being taxed out of existence. The gentleman says we pay three taxes. I can show you six taxes.

The CHAIRMAN. I thought I was the only fellow in that condition.

Mr. BRADY. Well, in my other lines of business—I am in many lines of business—I am not taxed six times. There are more taxes on the motion-picture industry than any other industry in the United States, and the motion picture can not stand it. And, believe me, Mr. Chairman, the motion-picture industry is entitled to consideration before a congressional committee, for this reason, that it is the poor man's amusement, it is the place that a father and mother can take a group of children for a dollar or a little more than a dollar or so, and give them a fine night's entertainment. I would not mind how much you taxed the man that pays \$100 to see the Dempsey-Carpentier fight; I would not mind how much you taxed the gentlemen who pay \$10 for an opera seat, but the poor man of the United States is entitled to protection for his amusement.

The CHAIRMAN. I am one of that kind.

Mr. BRADY. I know. You go to my theaters. I had the pleasure of showing you one of my plays once, and I hope you liked it. The motion picture, when taxed, is an expensive amusement, considering that 1 cent out of 10 to a poor man is a lot of money, if he has to bring four or five children with him.

Mr. FREAR. Mr. Brady, you would be interested, perhaps, to know that this committee sat here yesterday and listened to a man who urged an objection to taxing base balls and golf balls, and all those kinds of amusements, and the day before a gentleman appeared before us who was urging an objection to taxing pleasure yachts and things of that kind. After listening to them, I realize there is force in what you say.

Mr. BRADY. And I heard the answer of the gentleman when you spoke about the National and American leagues, and he told you he gave the base balls to them for nothing for advertising purposes. But in this case there are 12,000,000 men, women, and children, whose only source of entertainment is the motion picture.

Mr. FREAR. Where are you going to put the tax that we take off the pictures?

Mr. BRADY. I suggest that you cut off the film tax. This is a double tax.

Mr. FREAR. And then put that tax where?

Mr. BRADY. Well, spread the butter a little thinner, as one of the previous speakers said, by picking out a few more industries and taxing them. When you come right down to it, we paid \$90,000,000 in taxes last year, the entertainment interests of the United States. I do not know how much the gross tax was, but I figure it is about one-fortieth of the total.

Mr. FREAR. The taxes upon these baseballs and bats and things like that ran up very strong yesterday, and the difficulty before the committee, as the chairman has repeatedly pointed out to the witnesses, is to have some one indicate to us where we can raise these taxes from other sources.

Mr. BRADY. Spread it to other industries, and do not concentrate upon a few industries.

The CHAIRMAN. What industry would you put it on?

Mr. BRADY. I do not want to make any suggestions about any other industry. I was here three years ago and heard the automobile industry tell you to put it on anybody else but them.

I am here to answer any questions. I am an expert on the subject, having been in the theatrical business for 32 years.

Mr. CRISP. What percentage of the legitimate theaters have been put out of business by the motion-picture entertainments throughout the United States?

Mr. BRADY. I am glad you asked that question. Your whole State has been put out of business, except Atlanta. It is impossible to play in Augusta, Charleston, or Savannah any more, because the legitimate theater has been wiped off the map.

Mr. FREAR. By the motion pictures?

Mr. BRADY. By the motion pictures, and by the fact that actors are getting scarce, and they send No. 2 and No. 3 companies throughout the country.

Mr. FREAR. What has been the effect of the increased admission price from 10 cents up to \$2, that Mr. Griffith wants for his attractions? Has that had any effect upon the public?

Mr. BRADY. You quote one instance—Mr. Griffith. When Mr. Griffith makes a picture he makes it with extreme care, and Mr. Griffith presents it in the most wonderful way and spends a million dollars to make it, and it is a long while, often two years, before he gets his money back.

Mr. FREAR. It ought to be for some of his pictures.

Mr. BRADY. When you talk about raising the price for some of the motion pictures, I want to tell you that the price of labor, stage hands and musicians used in making motion pictures has gone up 300 per cent.

Mr. HOUGHTON. Why do you not reduce the labor then?

Mr. BRADY. We have got to be like all the other intelligent American citizens, who think that labor has its rights as well as the retailers in the United States, and when the retailers awaken to the fact that they can not—

The CHAIRMAN. Mr. Brady, you have occupied 15 minutes.

Mr. BRADY. Well, I will conclude just as quickly as I possibly can.

Mr. HOUGHTON. You say you have increased the price of labor from 300 per cent to 600 per cent? Do you call that a general increase in price?

Mr. BRADY. I am somewhat of a politician. I do not care to answer that question.

Mr. TILSON. Do you not think that if you reduced the price of admission to the legitimate theaters down to a reasonable amount, say \$1.50 or \$2, instead of having to pay \$3.50 for a seat, as you do in New York City to-day, that you might revive the legitimate theaters?

Mr. BRADY. The New York Times announced this morning that that is going to be done.

Mr. HOUGHTON. Do you not think that if you reduced the price of admission to the motion-picture houses to 5 cents or 10 cents, like it was seven or eight years ago, that that would increase your attendance?

Mr. BRADY. That has gone, because the public demands a finer grade of picture. The public will no longer go to a 5-cent or a 10-cent picture, because those attractions were made in one or two reels. The expense of making pictures has increased enormously.

For instance, the writers of the world are writing for the pictures to-day, every great writer of the world, and they do not write for nothing.

Mr. GREEN. If we could set the wheels of industry in motion, and the men that are now walking the streets could get employment, would not that help your business a good deal?

Mr. BRADY. I think it would; but the only way you can get our people back into employment is to fix things for us so that the high-priced taxes and the high price of everything does not keep them out of the theaters. The statement was made here by one gentleman, in answer to a question, that from 25 to 35 per cent of the motion-picture houses were closing. He is probably running a small theater. I would say the figure is probably from 50 to 70 per cent in some cases. The condition is deplorable.

I want to say one thing more. There has not been one dividend declared by any motion-picture firm in the United States this year. The whole city of Fort Lee, N. J., which is a nest of motion-picture studios and motion-picture printing establishments, where four or five thousand men and women had employment, is absolutely wiped off the map.

Mr. FREAR. It seems to me the farmers of the country are trying to get help out on their farms, and they fail to get employees except at prices far exceeding the prices paid prior to the war.

Mr. BRADY. I know that times are hard, and I am not here asking you gentlemen to do anything for us. I know how hard it is for you to raise money, and we are perfectly willing to do our bit to the absolute limit, but we feel that you are requiring a little bit too much from us at present. We are putting ourselves at your mercy, saying to you that ruin is staring many of our people in the face, and we are asking you as our representatives to try and help us.

SAMUEL BERMAN, NEW YORK CITY.

Mr. BERMAN. I just want to make one statement. I think I am better able to make this statement than almost any man in the United States to-day. There was one question asked by Mr. Frear about heat and children. I want to say that this depression in the motion-picture business came about prior to your hot spells.

Mr. FREAR. Yes; because the general depression came about prior to that.

Mr. BERMAN. Yes; some time prior.

Mr. FREAR. The motion picture was offered as the only alternative for the child to-day, and that was the reason I was suggesting the other pleasure he could get.

Mr. BERMAN. I am willing to admit that our business falls off some in the hot season, but it has never fallen off the way it has to-day, and I am able to show from statistics that I gathered throughout the country that the normal business in the picture business to-day is between 25 and 30 per cent of normal.

Mr. FREAR. If you extend your investigations further to the other industries of the country, you will find that a very large percentage of their business has fallen off at the same time.

Mr. BERMAN. How many of those to-day have lost practically from 70 to 75 per cent of their business?

Mr. FREAR. I would not want to pass on it, but I would say a great many of them. Many of them have closed their doors, having found it impossible to do business.

Mr. BERMAN. In addition to that, I find that from 30 to 35 per cent of our theaters are closed, from a careful survey by myself in person.

Mr. OLDFIELD. When did the depression begin?

Mr. BERMAN. This depression started about March, in the early part of March.

Mr. CRISP. Of this year?

Mr. BERMAN. Yes, sir.

Mr. CRISP. Just about the time the Republicans came in, or a little after the inauguration?

Mr. BERMAN. I do not know whether it was right after the inauguration or not. Do not get me on that end of it now.

Further, I want to emphasize this, gentlemen. With regard to the question of coming back to the 10 cent picture, I want to emphasize that part of it. In those days we had to run a one-reel picture, which cost possibly \$1,500 or \$2,000 to make. If you opened your theater to-day with a 5 cent or a 10 cent picture, and went back to the days of those \$1,500 and \$2,000 productions, do you realize how many people we would have in the seats of that picture house with that kind of a picture? We have few enough people now. Do you realize that operators who formerly got \$15 or \$18 a week, are getting now \$77 a week, and are asking for a 25 per cent increase, or a threatened strike? Do you realize that the musicians of this country are making four times the money that they ever made before, and yet they are asking for a 25 per cent increase in wages now, and we are forced to give them the usual two weeks' notice?

Mr. FREAR. Why lay all that to this 5 per cent tax?

Mr. BERMAN. I am adding all these things together.

Mr. FREAR. But you take a man or woman from the legitimate stage who is making a reasonable salary, and the minute you put them in the movies you give them an enormous salary, if the newspaper statements are correct, and yet you complain that the 5 per cent tax is much the bigger trouble.

Mr. BERMAN. Mr. Frear, I want to emphasize this to you: You state what the newspapers say. The newspapers are telling you to-day that the motion-picture industry has suffered less than any other industry in the country. Let me say to you that I am able to substantiate this statement: Having just covered the country, there is not an industry in the country to-day that is suffering as much as the motion-picture industry.

As far as these salaries are concerned, I want to emphasize this. Oftentimes there is a lot of that put in the newspapers for propaganda purposes, and do not forget that. Those are newspaper salaries, possibly, and not American gold—you know, for publicity purposes.

There is only one final statement I want to make. I want to impress upon you the fact that 85 per cent of this industry is your little neighborhood theater, and a \$15 or \$20 tax per week is going to help crush and put them out of business. It may not count with the Rialto, it may not count with the Strand, but it does count with 85 per cent of this industry. Do you want to wipe us out?

FRANCIS HOLLEY, REPRESENTING THE BUREAU OF COMMERCIAL ECONOMICS, WASHINGTON, D. C.

Mr. HOLLEY. Mr. Chairman and gentlemen, the bureau which I am trying to represent is an altruistic institution which has been for the last 15 years showing pictures free to the people, and last year we showed pictures to 34,000,000 people, admission free, no collection, no silver offering, and no suggestion of money.

The films which my bureau displays are the films of various departments of the United States Government, those of Great Britain, France, and other foreign Governments, and other films that are supposed to be for the public good, such as films showing the building of roads and bridges, the draining of swamps as a public health sanitation, the treatment of diseases, and things of that sort, and we have in our collection at this moment about 55,000,000 feet of film. We have in front of this building at this moment one of the projection trucks, equipped with a generating plant and motion-picture machine, phonograph, and amplifier, and we go out into the roadsides in the rural districts and show pictures. Night before last we had an audience of 1,500 back in Maryland, and to-morrow night we will have the same number back in Virginia, 20 or 30 miles, and those people gather by the roadsides, orchards, and other public places, and they see pictures of various characters, in a program properly balanced, so that they are not only brought into familiar contact with the conditions in this country, in the parks of this country, but in the parks and commercial centers of the world.

Mr. FREAR. Who contributes to the support of this Bureau of Commercial Economics?

Mr. HOLLEY. Thirty-five or forty of the public-spirited citizens of this country, including Mr. Julius Rosenwald, John Hays Hammond, and Marshall Field.

Mr. FREAR. It is for educational purposes, or for the circulation of propaganda for the development of roads, or something of that kind?

Mr. HOLLEY. Anything that is deemed for the public good, a film that is believed to be helpful, to impart information, to encourage the people to do better, to encourage them to improve their economic condition, or for vocational guidance.

Mr. COLLIER. I saw sometime ago here in this building on two different occasions one film showing how to fight the boll weevil.

Mr. HOLLEY. Those are films that we circulate, and films of that character.

Mr. COLLIER. There was one showing a round-up of cattle, and another one the blowing up of stumps with T. N. T.

Mr. HOLLEY. Those are some we circulate. We exhibited them in the room of the Committee on Banking and Currency in the Senate Office Building for four years, and have frequently exhibited them in the caucus room of this building, and during the four-year period we showed pictures four times a week in the Senate Office Building, of all the fronts in the war, some contributed by Great Britain, France, Belgium, and Italy, and those films were also shown in the Army and Navy Club, in order that the Government officials could acquaint themselves of the conditions that existed.

Mr. CRISP. The only tax you pay on that kind of work, which I think is a splendid work, is the tax on films; you do not have any seating-capacity tax?

Mr. HOLLEY. My dear fellow, we do not pay any tax to anybody for anything. Our films go out free into all foreign countries, and come out free into this country. They go into the State Department pouches and the diplomatic pouches, and are passed free to us here and from one country to another, and that has been so for 10 years. We send films every month from Washington to Battle Harbor. They go to the north shores of Hudson Bay, and clear to the mouth of the McKenzie, to teach the Eskimos how to deal with tuberculosis and other evils that those people suffer from.

Mr. FREAR. Have you any complaint to make in regard to the revenue law?

Mr. HOLLEY. No. This is the point we are interested in, with regard to the admission tax. Our films are shown to poor people. The poor people get recreation and comfort at this time from the pictures. They are shown in the parks, and I have talked with them, and they say they forget their troubles and poverty and distress due to the lack of employment. They are appealing to me now for pictures in all cities, because of the closing of the neighborhood houses where they have been in the habit of going. In the neighborhood houses there are vacant seats, a great number of them now, because most of the people have not the money to go. They are thereby deprived of a few moments relief from their suffering and distress and poverty. If the tax is taken off of that theater so that the theater can reduce its price and those poor people can go into that theater and have that relief for an hour or two, it will change the whole economic condition of this country, and that is proved by the fact that whereas formerly we would have an audience of 3,000 or 4,000, we now have audiences of 10,000 or 15,000 in a big section like Bridgeport, New Haven, or Hartford.

Mr. FREAR. Has not the general condition of the motion-picture business improved conditions with you, on account of the fact that no demand for attending them now exists?

Mr. HOLLEY. A great many people come to our exhibitions that are familiar with the motion-picture business.

Mr. FREAR. So you are really getting the benefit from the general conditions that affect the theater trade?

Mr. HOLLEY. But what we want to do is to have more people enjoy the pictures free. With the small facilities we have and a limited amount of money, we can not reach the people, although we have the films. The motion-picture owners last week in Minneapolis, in their convention, did one of the most magnanimous things that I ever heard of. They threw their theaters open on Saturday morning from 9 until 12 free to the high-school students, and to show pictures of every industry under the sun—commerce, agriculture, public health, and sanitation—to enable them to elect a vocation in life, and also familiarize themselves with economic conditions so that they will be better men and women when they go into the world to make a living two years hence. The theaters are paying the expense themselves of showing the pictures, of opening that theater, of maintaining an operator and staff, to give that service to their country in the development of a public service that they founded themselves at their own election. They are rendering such service to this country and to the upset condition of things that we could well afford to see this tax which you raise to-day on tickets placed on the people that can pay a half a million dollars to the Mary Pickfords and

the Douglas Fairbanks and the other people. If you can hold that tax on the producers, so that the producers can not take it off when you are not looking, and pass it on to the exhibitor, then you will get the tax where it should be paid. There is no person who earns \$500,000 for acting 12 times a year, and I say that tax should be paid by the people who can afford to pay it.

Those remarks are made seriously, because of the propaganda that is put out all over this country by astute and adroit advertising agencies. They make just as good pictures in Europe as they do in the United States. They were engaged in the art business abroad before we were engaged in agriculture in this country, and I say that the propaganda that is coming forth to-day from Paris that all the pictures that are any good are the American productions is rot. There are just as good pictures made there as are made here, and when you put up a barrier against their sending pictures here, they are going to put up a barrier against our sending pictures there, and when that barrier is put up the cost of making the negative is more here, and that price is passed on to the theater owner, and he, in turn, passes it on to the people.

Mr. FREAR. May I ask you whether you also receive free contributions from other countries?

Mr. HOLLEY. The other day Sir Thomas Lipton offered a truck to show pictures dealing with motherhood in India.

Mr. FREAR. Do you receive subscriptions or contributions from other people abroad, Great Britain and elsewhere?

Mr. HOLLEY. Not from anybody.

Mr. FREAR. Nor from the governments themselves?

Mr. HOLLEY. Not at all, not a nickel from any government.

The death rate in India was 71 per cent, and our attention was called to the fact, and we made a film in the maternity hospital in New York and sent 10 prints over there, and they circulated them for 14 months and reduced the death rate among children from 71 per cent to 56 per cent in 14 months. When Sir Thomas Lipton heard of that fact, he ordered a truck similar to the one outside of this building, costing \$10,000, and requested that we send over some prints and they would show them to more people.

Mr. FREAR. That is contributed for educational purposes?

Mr. HOLLEY. Absolutely.

I can not say any more, except this, that I do feel the tax should be taken off of the theaters.

Mr. FREAR. All theaters, including the legitimate theaters?

Mr. HOLLEY. The motion-picture theaters.

Mr. FREAR. What is the distinction between the two, in regard to the fundamental reason for removing the tax?

Mr. HOLLEY. Well, in the theaters that show motion pictures the price is less than in the legitimate theaters, and we find to-day those vacant seats, and at the convention at Minneapolis I said to the exhibitors, "Do not have vacant seats in your theaters, for this reason: Men came with their families, their wives and children every week when they had the money. Now they are not working, and they are hungry, and the man stays home, and the woman stays home, and then the small children stay home, and finally the whole family vanishes. It is up to the theater owners to send your box office man over to those homes and say, 'Do not stay home because you have not got the price of admission. When you have

got the price of admission, pay the admission, but until you have the price come and pass in your name and the number of tickets you want, and you may have the seats free, and we will pay the tax."

Mr. FREAR. Do they not go out to these fresh-air resorts that are in operation everywhere in the summer time? Is there not a large number of people that go there in preference to a stuffy little theater during the summer?

Mr. HOLLEY. Yes; but do they get as good entertainment?

Mr. FREAR. That may be a question that may be argumentative. I know of theaters in this town that do not seem to be very educational, or for the good of the people you are speaking about. I can point them out to you very readily.

Mr. HOLLEY. That is true. A great many theaters show very reprehensible pictures.

Mr. FREAR. Does not the child that goes out and gets the fresh air at Glen Echo, or any other similar summer resort receive as great a benefit as he does in a little stuffy theater with a foul atmosphere?

Mr. HOLLEY. Those who attend the pictures will not be in a stuffy little theater by the 1st of October, because there has been invented a daylight screen, and I am going to show pictures in the daylight as well as in the night, in the middle of September, at 12 o'clock, noon, and you are going to see in that light as good a picture, in all the sunlight of the day, as you ever saw in a theater, and you are going to see that because of an amplifier made after the manner of the one you heard in this office building from the Capitol, that enables the speaker to talk to 25,000 people and be heard a mile away, and Senator Owen was with me last Tuesday in Connecticut where we heard a record of the Stabat Mater 1,250 feet from the place where it was played, and heard his own voice 900 feet from where they made the wax disk upon which that was done. Now, you are going to be able to show pictures to more people at the noon hour, under better conditions than ever before, and we certainly do need an opportunity to divert the minds of the people that are distressed to-day, in the parks of Newark and Bridgeport, who are turning to suicide because there is nothing to divert their minds.

Mr. FREAR. Because they can not go into the motion-picture theaters you are going to give them this open-air attraction, and you think that will be a wonderful thing?

Mr. HOLLEY. We have only 35 people in this country supporting the work of this kind, trying to reach 107,000,000 people, and you have got to have support for these things, and they have given it to us. We have never solicited a dollar since this bureau started. It is purely persona! with me.

MUSICAL INSTRUMENTS.

CONGRESS HALL, Washington, July 30, 1921.

HON. JOSEPH W. FORDNEY,
House Office Building.

MY DEAR SIR: In a desire not to prolong your tax hearing, as the representative of the music industry of America, I beg permission to address you in this personal way instead.

The revenue acts of 1917 and 1918 created sales taxes on about 30 articles of manufactured products, selected without any definite principle of taxation or economics. These taxes impose an additional and unjust and discriminatory tax upon a limited number of industries and violate the principle of equal taxation. These taxes were perhaps justified at the time only as a war measure, and the promise was that they

would be removed when the war was over. We are entirely willing to share with other business in any tax proposed by this committee, but do not believe we should be singled out for special burden.

Where is the revenue to come, you ask. From whatever source you decide, from the Federal automobile tax, perhaps, from the tariff, postage, and other increases.

The necessity for revenue is no argument for continuing this discrimination against a few industries. We have borne this burden in the heat of the war day; let somebody else help carry it now.

In the present terrible depression in our business—over 50 per cent—this tax will no longer produce any appreciable revenue. It is a stigma tax. Many people regard the imposition of these taxes as a desire by the Government to repress the industry. The depressing effects of this tax in Canada were so evident that after an investigation it was abolished.

Musical instruments are purchased usually to last a lifetime. They are in the nature of investments, being an essential part of the home. The retailer almost never makes a cash sale, and in a majority of cases the initial payment does not affect this special tax which has already been advanced to the Government months previously. These credits run for two, three, and four years, and often the goods are returned and have to be sold over again. No industry operating under such conditions can continue to exist with this extra burden of excise tax draining its cash resources.

Attached hereto is an analysis in point of sales taken at random from every State.

Musical instruments should not be taxed as luxuries. Music is essential to education, supplies the means whereby thousands earn their living, is essential to religious worship, and indispensable to the public. In this time of unrest in the world, music is the only antidote.

A discriminatory tax on music is a tax on the home and upon education.

May we not have your help in this?

GEO. W. POUND,
General Counsel Music Industries of America.

SPECIAL EXCISE TAXATION.

Section 900 (4) of the revenue act of 1918 imposes a special and discriminatory tax upon music. This a tax of 5 per cent payable monthly. This tax is a cash payment upon shipment from the factory.

Our instruments are sold mostly to the poor and middle class and are sold upon time and deferred payments. They are not a luxury, but a necessity to these people. On a large proportion of our sales we receive in cash from the customer at time of sale less than we have already advanced to the Government, and these credits run over for four years' time.

An analysis of the cash payments and of the elapsed time between sale and final payment is illuminating. From actual sales fairly taken from all over the United States we submit the following results:

Analysis of cash and deferred payments on piano and phonograph sales for years 1914 and 1920.¹

PIANO SALES, 1914.		PIANO SALES, 1920.	
Cash received at time of sale (total number, 712):		Cash received at time of sale (total number, 1,019):	
Less than—	Per cent.	Less than—	Per cent.
2½ per cent of price.....	12	2½ per cent of price.....	4
5 per cent of price.....	26	5 per cent of price.....	11
10 per cent of price.....	23	10 per cent of price.....	26
15 per cent of price.....	8	15 per cent of price.....	17
25 per cent of price.....	8	25 per cent of price.....	15
25 per cent and over.....	21	25 per cent and over.....	24
Elapsed time between dates of sale and final payment (total number, 657):		Elapsed time between dates of sale and final payment (total number, 934):	
Less than 1 year.....	10	Less than 1 year.....	8
1 to 2 years.....	12	1 to 2 years.....	34
2 to 3 years.....	27	2 to 3 years.....	30
3 to 4 years.....	33	3 to 4 years.....	21
4 years and over.....	15	4 years and over.....	4

¹ Figures are plus and the per cent of total number sold.

PHONOGRAPH SALES, 1914.		PHONOGRAPH SALES, 1920.	
Cash received at time of sale (total number, 2,049):		Cash received at time of sale (total number, 4,794):	
Less than—	Per cent.	Less than—	Per cent.
2½ per cent of price.....	7	2½ per cent of price.....	2
5 per cent of price.....	3	5 per cent of price.....	2
10 per cent of price.....	15	10 per cent of price.....	20
15 per cent of price.....	24	15 per cent of price.....	22
25 per cent of price.....	20	25 per cent of price.....	23
25 per cent and over.....	28	25 per cent and over.....	27
Elapsed time between dates of sale and final payment (total number, 1,926):		Elapsed time between dates of sale and final payment (total number, 4,183):	
Less than 1 year.....	60	Less than 1 year.....	55
1 to 2 years.....	33	1 to 2 years.....	42
2 to 3 years.....	4	2 to 3 years.....	1
3 to 4 years.....	$\frac{500}{983}$	3 to 4 years.....	1
4 years and over.....	$\frac{500}{983}$		

PROPRIETARY MEDICINES.

FRANK A. BLAIR, CHICAGO, ILL., REPRESENTING THE PROPRIETARY ASSOCIATION.

Mr. BLAIR. Mr. Chairman and gentlemen, I am a manufacturer of proprietary medicines, from Chicago. I am president of the National Association of Manufacturers in our line. With the permission of the committee, I will save your time by filing a brief, unless some member of the committee wishes to ask some questions.

The CHAIRMAN. File your brief with the clerk of the committee.

Mr. GARNER. Does your brief make an argument in favor of repealing the tax on proprietary medicines?

Mr. BLAIR. It does.

Mr. GARNER. We are with you.

Mr. BLAIR. I hope you speak for the entire committee.

Mr. GARNER. They were with you in 1919; I am sure of that.

Mr. BLAIR. You were with us last time, Mr. Fordney.

BRIEF OF THE PROPRIETARY ASSOCIATION.

DEAR SIR: We respectfully ask that your committee give consideration to the repeal of the special excise tax on prepared family remedies.

A vast majority of the population, and particularly of the farmers and those living in isolated places, as well as the poorer classes, use prepared package medicines.

The present law, therefore, levies a special excise tax against the medicines of the poor, which has not been levied against the prescriptions of the physicians.

Special taxation should be levied, first, upon luxuries, then upon necessities. We do not believe that a tax upon medicines is justified, even in war time, certainly not in time of peace. It should never be used, except as a very last resort.

In Canada, where the public debt is even higher per capita than in the United States, they have done away with the special excise tax on medicines.

It would be more reasonable and just to tax a well man for his food, when earning his wages and able to pay taxes, than to tax the sick and suffering when unable to work and without an income from which to pay a tax.

A bill has been introduced to revise the revenue law in which it is proposed to allow a deduction from income for all sums paid out for medical attendance or medicines.

This seems to be a proper deduction: If so, it can not be proper to place a special tax on the medicines themselves.

Our industry has felt the stress of trade conditions very seriously. Manufacturers have reported a falling off of their volume of business ranging from 30 to 60 per cent, comparing 1921 with 1920.

Few of them are making any money and many of them are sustaining heavy losses. One manufacturer stated recently that he had taken losses of \$125,000 in the past eight months. He is an old-established line with a large volume of business.

FRANK A. BLAIR, *President*.

TOILET SOAPS AND SOAP POWDERS.

BRIEF OF THE TOILET SOAP MANUFACTURERS OF THE UNITED STATES.

On behalf of the manufacturers of toilet soaps and toilet soap powders, we have the honor to request that in the readjustment of internal revenue taxes now about to be made by Congress, the special impost of 3 per cent on toilet soaps and toilet soap powders be repealed. We earnestly urge the elimination of this tax on the ground that it is an inequitable burden, and a clear discrimination against a single industry, as it is levied in addition to a full share of all other taxes, including corporate and individual income taxes borne by these manufacturers.

In this connection we beg to remind you that the President of the United States in a message to Congress on May 20, 1919, more than two years ago, made the following recommendation:

"Many of the minor taxes provided for in the revenue legislation of 1917 and 1918, though no doubt made necessary by the pressing necessities of the war time, can hardly find sufficient justification under the easier circumstances of peace and can now happily be got rid of. Among these, I hope you will agree, are the excises upon various manufacturers and the taxes upon retail sales."

Because of the conviction on the part of the Congressional leaders that the revision of internal revenue legislation as well as the tariff should be postponed until the reestablishment of more stable conditions throughout the country, the recommendations referred to were not acted upon. Manufacturers and merchants have since waited patiently for relief from inequitable taxation which, although borne with patriotic fortitude during the war time, certainly has no justification now that the war is actually over.

We fully appreciate the fact that the resources of the Federal Treasury and the obligations that must be met during the next few years will not permit of a very substantial reduction in the total amount of revenue to be derived from taxation. The burdens of the war must be met and in the nature of things must be carried for many years to come. We would not shirk the smallest fraction of our fair share of this tax burden, but we submit that the very fact that it is inevitable that the cost of the war must burden the country for many years to come, is the strongest possible argument against further oppression of selected industries by special taxes, and in favor of the prompt readjustment of our entire system of internal revenue imposts, so that the burden shall be most equitably distributed over all industries and all classes of our population. To continue during a long peace time period a special tax on a single industry, justifiable perhaps during a great war emergency, is not only inequitable but unscientific from the standpoint of sound economics and can not be justified upon any reasonable theory of taxation.

The public understands that Congress now desires to rectify mistakes made in the levying of taxes made under stress of war necessity, and that while there may not be any material reduction in the aggregate amount of internal revenue to be annually collected, great care will be exercised to bring about a readjustment of tax burdens with a view to stimulating industry, increasing employment, and thus restoring prosperity at the earliest practicable date. With such an object in view, we submit that the special tax borne by manufacturers in our industry, in all fairness, should be promptly repealed in the interest of producer, dealer, and consumer, all of whom will be beneficiaries of the lifting of this burden.

The manufacturers of toilet soaps and toilet soap powders during the last two fiscal years paid a special tax amounting to more than \$2,000,000 per annum. In addition they paid their full share of the excess-profits tax, corporate and individual income taxes, the tax on transportation, and the thousand-and-one minor imposts levied by the war revenue act.

Upon what theory Congress imposed this particular tax we have never been able to understand. It would hardly seem necessary to point out the absurdity of taxing ordinary bath soaps as luxuries, and it is certainly a surprising fact that the authors of the existing law should have gone outside of the categories of the Spanish War

revenue act of 1914 for the purpose of imposing a tax on soap which, since the archaic revenue law of 1862, have never been subjected to any internal-revenue impost whatever. It is almost inconceivable that, in the year 1921, the laws of the United States should tax soap as an article of luxury, when this Government is spending millions of dollars annually to impress upon our people the importance of personal cleanliness and to keep the United States in line with the world-wide movement for improved hygiene and better sanitation. Legislation requiring the use of soap and contributing to its cheapness would certainly be more appropriate to the spirit of the times.

We are sure that Congress is not unmindful of the world-wide demand on the part of the consumer for lower prices, especially upon the necessities of life, in which we do not hesitate to include our products. Wherever it is possible to meet this demand to a substantial extent it is also possible to maintain normal production and to afford employment at living wages.

When costs of production and the burdens of taxation make it impossible to bring about lower prices, there is an inevitable shrinkage in demand, production, employment, and prosperity. The Federal receipts from corporate and individual income taxes and other sources of revenue affected by the general welfare of the people have far more to gain from a general condition of prosperity that will be brought by a scientific readjustment of tax burdens than can be obtained by the retention of discriminatory imposts on special industries, particularly those producing goods necessarily included in the daily budget of the American family, no matter how limited its resources.

We beg to assure your committee that our industry is animated by the same spirit of patriotism that has been so strongly manifested throughout the country since America first became involved in the great World War. To whatever extent Congress, in its wisdom, shall increase corporate and individual income taxes or any other impost bearing equally upon the taxpayers of the whole country, we shall cheerfully contribute our share, but we most earnestly urge the repeal of the present discriminatory tax on our products.

We believe that the expectation that Congress will speedily lift all inequitable tax burdens on industry is justified by the confidence of the entire Nation in your intelligent and statesmanlike handling of a problem that is vital to the welfare of the whole country.

WILLIAM L. CROUNSE.

WORKS OF ART.

HENRY S. MITCHELL, NEW YORK CITY, REPRESENTING THE ART ASSOCIATIONS, MUSEUMS, AND DEALERS.

Mr. MITCHELL. Mr. Chairman and gentlemen of the committee, in the absence of Mr. John Quinn, of New York, who is the counsel for these associations in this matter, I am appearing representing the American Federation of Arts, composed of 273 chapters throughout the United States, the Council of the National Academy of Design, of New York City, the National Arts Club, of New York City, the Fine Arts Federation, of New York, which embraces 16 subsidiary associations, the League of New York Artists (Inc.), and a number of other like bodies which I will not stop to enumerate.

Mr. TAGUE. Do you represent anybody outside of New York?

Mr. MITCHELL. Yes; for instance, the American Federation of Arts has chapters through the United States. I also represent some dealers in art. Mr. Neyle Colquitt, of Washington, is associated with me, but he will not take any time of the committee.

Mr. YOUNG. None of these associations or institutions are of a profit-making character?

Mr. MITCHELL. Of course, the dealers are in it for profit, but all these other associations are not for profit.

It is section 902 of the revenue act of 1918, which provides for a 10 per cent sales tax on all works of art, including paintings, statu-

ary, and sculpture, which, on behalf of these associations, I urge the repeal of, or I urge that in the bill which is being prepared by the committee that the tax be omitted.

The tax is not imposed on sales by artists themselves or on sales to art museums, but nevertheless both the artists and art museums have an interest in the repeal of the tax, because the existence of the tax narrows the market for the artist's work, and, furthermore, it prevents to a large extent the acquisition of paintings and sculpture by individuals which would ultimately find their way into the museums.

Mr. Chairman, the tax was originally imposed in the revenue act of 1918 in conjunction with the tax on sales of automobiles, for instance, and on sales of jewelry, and apparently it was intended not so much as a revenue producer as a measure to divert the energy and money of the country into channels which were more necessary for war purposes existing at the time. At any rate, as a revenue producer this tax on sales of art has been a conspicuous failure, because in the fiscal year ending June 30, 1920, the revenue produced from this sort of tax on art was one and a half million dollars, if you will allow me to use the round figure, which, of course, as far as tax items go, was rather insignificant, so I say it is not successful as a revenue producer.

On the other hand, regarded as a measure to suppress the sale of works of art and divert the money and energy of the country into other channels, it was highly successful, because in the fiscal year ending June 30, 1921, that is the present year—and I can only take the figures for the first nine months because they are the only ones that have been published—the net result of this tax, according to the Treasury figures, was \$800,000, which is at the rate of \$1,100,000 for the whole year, which is 28 per cent less than the returns which were realized from the tax in the preceding year, showing that it was extremely efficacious in suppressing the sales of works of art.

Gentlemen, a tax or a measure which has the tendency to suppress the artistic impulse of the Nation must rest on a very strong justification, if it is to be justified. Let me just refer to the dictum of President Eliot, of Harvard University, who stated:

A tax on works of art is a tax on the education and development of the sense of beauty and of the enjoyment of the beautiful. It violates the essential principles of a democracy, which believes in universal education.

Art is a part of the education of the country, and in the absence of extraordinary circumstances, I submit that the true function of a democratic government is to encourage rather than suppress the works of art and the artistic impulse of the country.

Mr. HAWLEY. Is that result due to the tax or rather to the falling off of purchases generally?

Mr. MITCHELL. Certainly.

Mr. HAWLEY. And to the fact that if people had to economize they would economize on these things rather than on other things that might be necessary?

Mr. MITCHELL. Yes, surely; but I think it is fairly obvious that the tendency of this tax was to suppress the sales of works of art, and we have the actual falling off in revenue, ergo, I think it is fair to infer that one was in part caused by the other. Moreover, the testimony of artists, dealers, and patrons of art largely attribute the falling off in sales to the existence of the tax.

The true function of a government, it seems to me, is to encourage rather than suppress the artistic impulse of a country. Before the war Congress was coming and had come to realize that fully. Let me refer to the tariff acts. In earlier years there was a tariff on works of art brought into the country. In the act of 1909 that tariff was partly removed, and in the 1913 act it was entirely removed on works of art, original works of art, so that Congress had recognized the principle that art ought not to be taxed. That principle, that enlightened policy which we had come to recognize as well as the older established countries of the world, was temporarily reversed under war conditions by this act which I am now suggesting the repeal of. Congress reversed itself under the stress of war conditions in putting a tax on works of art.

My proposition is simply this, gentlemen, that the extraordinary necessity which existed for that tax, suppressing the artistic impulse of the country, has now passed away. The war is over, we are in the postwar period, and I suggest that this tax ought to be done away with, it being absolutely insignificant as a revenue producer, and having a very clear and pronounced effect in suppressing the artistic impulse and artistic education and development of the country.

The CHAIRMAN. Can you not suggest some way by which the \$25,000,000,000 that we owe may be done away with?

Mr. MITCHELL. By paying it, of course, sir. But I would further suggest that this particular tax, yielding at the most \$1,100,000 in a year, goes a very slight way toward the payment of that debt.

The CHAIRMAN. But every little bit helps.

Mr. MITCHELL. Certainly, sir. If it were not for the fact that I am resting my suggestion on this proposition that it is absolutely inimical to the true interests of the country to tax art, I would not be making this appeal. Art is a part of the artistic development, a part of the true education of the country. That is a recognized principle, sir, and unless there is an extraordinary reason for producing revenue, or an absolutely overpowering consideration such as existed during the war, we should not tax art.

The CHAIRMAN. If we have to have that money, where would you suggest that we get it?

Mr. MITCHELL. Of course, that is a rather broad question.

Mr. TAGUE. That is the chairman's job, is it not?

Mr. MITCHELL. It is.

Mr. GARNER. What tariff was levied on art objects in the Fordney tariff bill?

Mr. MITCHELL. There is no tariff levied on objects of art in the new Fordney bill.

Mr. GARNER. Mr. Fordney, then, recognized the necessity of admitting art objects free into this country?

Mr. MITCHELL. He did; he recognized that in an enlightened country art ought not to be taxed, because it was a part of the education and development of the country.

The CHAIRMAN. When used for a certain purpose.

Mr. MITCHELL. Yes, sir; when used for certain purposes.

The CHAIRMAN. Museums, art galleries, etc.?

Mr. MITCHELL. But the art galleries are going to get their acquisitions from private collectors. It is a well-known fact that most of the art galleries get the greater part of their collections from private

collectors. These private collections are to a large extent suppressed by the existence of this tax.

The CHAIRMAN. I would rather import a real live girl than one cut from stone. I think it would be more beneficial to the people.

Mr. MITCHELL. It is a fact that the tariff act, which bears the name of Fordney, carries no tax on art. You will, of course, recollect that.

Mr. GARNER. But does it carry any tax whatever on any art? He says it is limited to that which comes in for public museums.

Mr. MITCHELL. No; it carries no tariff on art, sir; none at all.

The CHAIRMAN. The Democrats confused it so when we got in the House and tried to upset the whole thing that I have forgotten just what it was.

Mr. MITCHELL. The masterpiece went out under your name, though, sir.

Mr. CRISP. Is that a work of art?

Mr. MITCHELL. I would classify it as such. I certainly would not want to impose any tax on it.

The CHAIRMAN. We will give you anything you want.

Mr. MITCHELL. I have practically finished.

I have urged the elimination of this tax. One further word. I want to direct the committee's attention particularly to a discussion of this subject before the Finance Committee of the Senate which was recently given by Mr. John Quinn, who is thoroughly familiar with the subject of art, much more so than I am. This committee has before it the record of the proceedings before the Finance Committee, and I want to request the particular attention of your committee to the remarks of Mr. Quinn in that connection.

I also want to ask permission, Mr. Chairman, to file a brief prepared by Mr. Quinn, which will be distributed to the committee. I thank you for your courteous attention.

BRIEF OF JOHN QUINN AGAINST TAXING SALES OF WORKS OF ART.

The plea in this brief is joined in by a large number of museums, art leagues, art associations, and other bodies and a group of the leading art dealers of the United States.

Among those are the American Federation of Arts, which is composed of 273 chapters, located in almost every State in the Union, and which includes practically all art museums and important art societies of the United States; the Council of the National Academy of Design of New York City; the National Arts Club of New York City; the Fine Arts Federation of New York; the League of New York Artists (Inc.); and many other like bodies.

The League of New York Artists is a new organization for the purpose of improving the material condition of the artists, the correlation of art and the public, and generally to promote the development of the arts. It has a present membership of about 1,000, with a prospect of indefinite increase.

The Fine Arts Federation of New York is a federation of practically all the artistic associations of the city. They are as follows: The National Academy of Design, New York Chapter of the American Institute of Architects, the American Water Color Society, the Society of American Artists, the Architectural League of New York, the American Fine Arts Society, the Municipal Art Society of New York, the Society of Beaux Arts Architects, the National Sculpture Society, the National Society of Mural Painters, New York Water Color Club, Brooklyn Chapter of the American Institute of Architects, Society of Illustrators, American Group Societe des Architects Diplomes Par le Gouvernement, the Art Commission Associates, the New York Chapter American Society of Landscape Architects. This is the most comprehensive art association in New York City.

POINT I—SALES OF ART SHOULD NOT BE TAXED.

Art is not a luxury.—Art is not a luxury like jewelry or sporting goods or perfumes and cosmetics or musical instruments or fancy dresses and furs or automobiles and pleasure yachts or wines or liquors and cigars.

Art is no more a luxury than education is a luxury, or than religion is a luxury, or than science is a luxury.

As education and science are not taxed, and should not be taxed, for it would be monstrous to tax them, so art should not be taxed. To tax art is in effect to tax institutions engaged in educational work. Art knows no country and its cultivation should be as free as can possibly be made.

The art of every age is the fine flowering of all the scientific and all the philosophical thought of its own day and time. It quickens vitality and intensifies the love of beauty and the love of country and increases the joy of life.

John Ruskin and William Morris did more perhaps than any men of their time in England to bring art to the people and to promote art made by the people and for the people, as a joy to the maker and to the user, and it was William Morris who said: "I do not want art for a few, any more than education for a few, or freedom for a few."

William Morris was a poet of genius. He was also a great prose writer. He was a true artist and a loving craftsman. He revived the art of fine printing. He was a man of rich nature—a great and many-sided man. He devoted his life to literature and art and to the bettering of the condition of the working people. Morris was so serious about his art, he so passionately regarded life as a means to art, that he devoted the best years of his life to preaching the ideal of the natural life as a community of working artists.

Morris regretted the passing of the days when art was everywhere in life, when nearly everything that was used and seen was the work of men's hands and was a joy in the making and a joy to the user. But the steam engine and electricity and machines and inventions have greatly changed life. To-day it is the artist and the craftsman who stand between the harshness and the crudeness of machines and their unlovely, if necessary, products, and a fine life. Art is needed more now than it was needed in the Middle Ages before the steam engine was invented, when nearly all workmen were artists.

The idea of a tax on art sales as luxuries is based on the assumption that education in the highest sense is a luxury that should be penalized.

In all matters of taxation the question should be not merely how many dollars are involved but the nature of the occupation proposed to be taxed.

Hundreds of millions of dollars a year are expended in this country on education and science. Yet it would be a monstrous and barbarous thing to tax education and science, or to compel our universities and colleges and scientific institutions to deduct a tax from the salaries of their teachers, professors, and investigators. It would be a barbarous thing because it would be a tax upon science, a tax upon culture, a tax upon civilization.

So, too, a tax might be imposed upon religion. The amount spent upon religion of all denominations in this country every year is very large. Much of that money is contributed by rich men. A tax upon the moneys devoted to religion would yield a large revenue, but it would not be civilized. It would be a tax upon religion itself, which, like a tax upon science and art, would be an uncivilized act. Art ought to be a living vital thing. The tax on art sales tends to deprive American art students of the vital living contemporary art of Europe. It deprives other persons who desire and love art and are anxious to acquire the best living art if they can, of a reasonable opportunity of doing so unless they pay a tax upon all their purchases.

Jewelry, which is a luxury, can in no sense be compared to art. A man forms a collection of works of art and that art ultimately finds its way into a public gallery. A woman buys jewels, but they do not go into museums or galleries. The one is of inestimable benefit to many and an aid to their culture and refinement; the other is merely a question of personal vanity and pleasure and of no benefit to anyone except the wearer, and sometimes not even to her.

Yet, under the present revenue law, jewelry is taxed 5 per cent only on sales to the ultimate consumer; that is to say, jewelers can trade freely between themselves without paying any tax.

Works of art under the present act pay a tax of 10 per cent, and every sale, whether wholesale or retail, is taxed.

An interesting volume could be written on the various phases and aspects of the proposition that art is not a luxury. But I think I have said enough to

show that art, like education and science, is a necessity to a well-ordered and civilized life, and that instead of being taxed it should be encouraged. Our artists do not ask for government financial support or encouragement. They did their part in the war in the work of camouflage on the battle front and in the way of posters in this country and in the ranks and in other war services. All they ask is that art be not taxed.

POINT II—REASONS FOR REPEAL OF PRESENT TAX OF 10 PER CENT UPON ART SALES.

Untaxed art aids the growth of public art galleries and art museums.—The growth of our museums since the tariff was removed from art in the act of 1913 has been tremendous and the daily attendance has grown tenfold. We now have museums in nearly all of our large eastern cities and many of the middle west and far western cities have museums and others are in the process of formation. Museums are for the benefit and instruction of the masses of people who have not the opportunity or the means to personally acquire fine works of art. How do museums acquire their best works? They are the gifts of public spirited collectors, who either leave them by will or bequeath funds for their purchase. Such are the Rogers fund, the Catherine Lorillard Wolfe fund, the George A. Hearn fund, the J. Pierpont Morgan bequest, the I. D. Fletcher bequest, the H. C. Frick bequest, the John G. Johnson bequest of Philadelphia, and other notable bequests, which are the nucleus of galleries and museums throughout the country.

Effects of the present 10 per cent tax on art sales.—This tax has tended to stifle the formation of new collections, and the country is the loser thereby. A glance at history shows that ancient Greece and Rome live in our minds to-day through their philosophers, artists, and writers. The great period of the renaissance was the foundation of modern civilization and culture, and that life flowered in its paintings, its sculpture, its tapestries, its carvings, its stained glass, and other forms of art.

Why do Americans go to Europe to-day but to see its art treasures and to live in an atmosphere which is elevating and instructive? Why do women go to Paris to buy dresses? The answer is invariably the same, because the French dressmakers are more artistic and have more taste.

When one realizes those facts one can not think of art as a luxury any more than science and education is a luxury.

Act, as it stands, tends to kill the free circulation of works of art.—Collectors like to buy from certain dealers. Unless those dealers can get the works desired, no business can be done. No great collections have been in process of formation since the tax has gone into effect. As people have already so much taxation, they desist from purchasing what is not absolutely vital at the moment. This is a regrettable condition, especially at this time, as America to-day has the opportunity to acquire important art works from Europe, just as England had after the Napoleonic wars, an opportunity of which England then availed herself generously, to the enrichment of her collections. It was at that period that the great English public and private collections were largely formed. Italy realized those facts and put a ban upon the export of her fine works of art. France has put an export duty on her works, not with the idea of raising revenue but to keep art in France. We, instead of encouraging and helping art, and encouraging our citizens to avail themselves of these opportunities for building up great private collections, which ultimately go to the public, by taxing art sales tend to kill interest in art and the possible acquisition of works of art.

Injustice of the tax on art as compared with other so-called luxury taxes.—Art is the only commodity in the whole revenue bill where sales are taxed between retail and wholesale.

The following example of how the art sales tax is applied is given in regulation 48 of the Treasury Department:

"A picture is sold by a private owner to a dealer for \$10,000; the private owner must pay a tax of 10 per cent of \$10,000, or \$1,000. This picture is thereafter sold to another dealer for \$15,000; the first dealer must pay a tax of 10 per cent of \$15,000, or \$1,500. The second dealer in turn sells the picture to a third dealer for \$20,000; the second dealer must pay a tax of 10 per cent of \$20,000, or \$2,000. The third dealer sells the painting to a private collector for \$25,000; the third dealer must pay a tax of 10 per cent of \$25,000, or \$2,500. Lastly, the private owner sells it to another private owner for \$30,000; the former must pay a tax of 10 per cent of \$30,000, or \$3,000."

Can anyone conceive of such transactions taking place? Dealers frequently used to purchase works from each other at small advances, but the tax has almost killed the wholesale business, the result being that collectors who usually trade with their own dealers do not see new things and their interest wanes and trade stagnates.

Further, dealers frequently exchange pictures without any money passing, but these changes in the Treasury regulation are deemed sales. For example: If two dealers exchange two pictures worth \$1,000 each, they would each have to pay the Government a tax of \$100. Is this equitable? A collector constantly desires to improve and augment his collection, and to do this trades in his earlier purchases. He can no longer do this, as the tax makes it impossible.

We give herewith an instance of how the tax works in a case which recently came up:

A dealer had a picture which he offered to a collector for \$1,000 and the tax; the collector declined to pay the tax, and owing to lack of business the dealer agreed to pay it, so the tax came out of the dealer's pocket and was therefore not a tax paid by the consumer. Within a month that collector saw a finer work by the same artist in another dealer's hands, the price of which was \$1,500, inclusive of the tax. He offered to give that dealer \$500 and the picture he had. Now consider what the result would be if that had been done. The second dealer, out of the \$500, would have to pay \$150 tax and the collector would have to pay \$100 on the painting he returned, and when the dealer resold that picture, he would have to pay another \$100 tax. Therefore, according to the law, in order to get his \$1,500 for the picture he offered, there would be due the Government \$350 tax. Naturally, the transaction could not be made, and resulted in the collector being disgusted with the status of affairs, and he stated he would no longer buy while there was such taxation.

The dealers, as a result of things like this, are paying little, if any, income taxes, and corporation taxes and the luxury taxes are being largely reduced. The artistic growth of the country is being stunted, and the dealers will be slowly but surely put out of business if the tax is not taken off.

To show the effect of the tax in diminishing sales, the Treasury Department has officially stated that the total collections from art sales for the fiscal year ended June 30, 1920, amounted to \$1,543,133.58. The collections for the nine months' period of the present fiscal year ended March 31, 1921, the latest period for which the figures are available, were \$829,374.34, which shows a tremendous falling off, which is claimed by the dealers to be almost entirely due to the tax on art sales.

Effect on the artist.—Lastly and not least, the producer, who is the artist, is a great sufferer from the tax on art sales. The law specifies that sales of pictures belonging to the artist shall not be taxed, but the artist must sell his pictures through dealers who formerly purchased direct from the artist. This is no longer the case, as if a dealer does this the picture becomes taxable when he resells it, and he would therefore have to ask a higher price. The artist now, before he can get any money, has to wait until he can either sell a picture himself or through the medium of a dealer.

Requirement of the law that sales taxes must be paid by the end of the month following the month in which the sales are made is very onerous and kills many sales.—It is a well-known fact that long-time credits necessarily have to be given as a mere matter of custom which has existed for years in many if not most art purchases. I have known even wealthy art purchasers to ask and receive a credit of six months or a year or even two years on their purchases. Others receive a credit of 3 to 6 months customarily, or 9 or 12 months. It will thus be seen that the requirement that the tax must be paid within the month following the month in which the sales are made is very onerous upon the dealer, who, if he made several large sales, would have to make large cash payments to the Government months in advance of receiving any payment from his customer. The effect of this is that it prevents large sales.

Certain reasons of policy which led to the sales tax on art no longer apply.—As is well known, the tax was imposed as a war measure, primarily to discourage the expenditure of money upon art objects at a time when the public should be spending it on necessities and investing it in Government securities rather than luxuries. There is now less necessity for discouraging such expenditure. Therefore the prime reason for the tax does not now exist.

Since its imposition the tax has operated so very injuriously in the sale of art objects as to greatly reduce the amount of business done. Evidence was given even two years ago of the ruin it had wrought during the first three months of the operation of the tax, showing that six of the largest art houses in the United States had suffered a loss of three-quarters of their business, while smaller firms showed a corresponding decrease. So harmful has the tax been to them that the Government not only realized but a very small amount therefrom, but actually endangered a legitimate industry. Thus from both points of view—that of decreased revenue accruing to the Government, and the art welfare of the Nation—the tax has been destructive in its effect. The English and French Governments were wiser, for not only during the war, but even afterwards, they encouraged and protected art, and the evidence is that these Governments have considered such a tax hurtful, impracticable, and not sufficiently productive of revenue.

Antique dealers in America have at least been responsible for the introduction into this country of many famous pictures and notable works of art which through their efforts have been purchased by American collectors whose ultimate intention was later to bequeath them to the Nation, and even in cases where buyers have not had such intention, and these objects have later changed hands, they have in many cases finally entered collections, the owners of which intended leaving them for the use of the people. This in itself has greatly enriched the art life of the country. While the prime reason of the dealers in importing these valuable objects has naturally been to make money, they have at least been instrumental in helping to make America an artistic country, as without their efforts and investment of capital such pictures and works of art would most likely have remained on the other side. They have nevertheless frequently felt discouraged by reason of the imposition of the present tax, as 10 per cent upon some of the sums involved kills the sales.

The public can not escape paying a tax upon necessities. But a tax upon art very often tips the scale between the generous inclination of a man to purchase a picture and his decision not to do so, postponing the purchase until a later date when he hopes the tax will not exist.

What, then, must have been the position of the smaller dealers, who, in their turn, have also contributed to the presence here of these wonderful antiques, but who, by reason of their smaller position in the business, have in many cases been prohibited from even thinking of indulging in such transactions.

There is no doubt that the longer the tax remains in force the smaller will be the volume of business which the dealers are able to indulge in, and its continuation is causing an increasing amount of apprehension and dismay. All concerned feel certain that the repeal of the tax would naturally result in an increased volume of business, thereby securing for the Government increased revenue.

For this reason alone the repeal of the tax would remove a very considerable hardship upon a business which, from all points of view, surely deserves the support of the Government.

POINT III.—PUBLIC OPINION GENERALLY IS AGAINST A TAX ON ART.

All American public opinion, whether it be of educators, artists, or art lovers or those interested in our art museums, is opposed to any tax on sales of art. The reasons in favor of untaxed art were set forth in the brief filed by the American Free Art League with the Ways and Means Committee of the House on November 28, 1908, which is on file in the records of both the House and Senate. That brief included the opinions of many American college and university presidents on the point, among which was the following typical protest by President Charles W. Eliot (Harvard College):

"A tax on works of art is a tax on the education and development of the sense of beauty and of the enjoyment of the beautiful.

"The appreciation of the beautiful is a rich source of public happiness, and the ultimate object of all Government is to promote public happiness; therefore a tax on works of art violates the fundamental principles of a democracy which believes in universal education, and in all other means of increasing mental and bodily efficiency, and the resulting public and individual enjoyments."

It is the duty of an enlightened Government to encourage and not to tax art.—Art has a refining influence upon a nation.

Most Governments of Europe have bureaus of fine arts and make liberal appropriations for art museums and art schools.

The highest development of art can be attained only by freedom and by the unhampered exchange of ideas between the artists of this and other countries.

Proper regard for education forbids any tax on art, which is a tax on knowledge and good taste.

The study of drawing and art is essential to education, and the educators of this country in 1909 were "a unit in their opinion that works of art should be free of import duty."

Art adds to the wealth of the country by benefiting and improving many of its industries, in whose production form, design, or color play an important part, such as silk, cotton, jewelry, carpets, furniture, wall papers, pottery, lace, glass, chinaware, architectural works in metal and stone manufacture.

A knowledge of art enters into the design, form, color, or style of mantels, fixtures, carvings, woodwork, moldings, fittings, the decorations inside and outside of houses, buildings, bridges, railway and elevated and subway stations, tableware, men's and women's clothing, and even the common and most useful kinds of painting and decoration, and all the other industries where some art education is a necessity. The product of almost every industry in the country could be improved both from the point of beauty and fitness by a real knowledge and an appreciation of art.

European countries which have applied art education to industry have produced manufactured "articles of superior design."

France by following such a policy for so long has produced artisans whose artistic taste and skill give greatly increased value to their work.

Germany, before the war, through a study and widespread knowledge of eastern trade and standards, "had secured and held an enormous trade in Japan."

Our artisans and artists should have the advantages which are now found in a superior measure in countries abroad.

The multiplying of art objects will tend to develop artistic taste among our people, and that will in turn create a demand for artistic products, which will give employment at high wages to skilled workmen and artisans, both men and women.

Art education will create an appreciation and an increased demand for art and increase the patronage of art.

American artists have always favored untaxed art.

Our art museums will benefit by untaxed art because:

1. Untaxed art will contribute to the establishment of new and the growth of our present museums.
2. Our museums depend largely for their growth upon gifts, loans, and bequests by individuals.
3. More than one-half of the art in our museums has been acquired by the gifts or the loans of private collectors.
4. Our public art collections will be richer if art remains untaxed.

As a nation our artistic soil is rather thin. It needs enrichment from the work of the great artists of the past and from the work of modern and living artists. It was a great writer and a great American, the late Henry James, who in his book *The American Scene* said:

"It is of extreme interest to be reminded at many a turn * * * that it takes an endless amount of history to make even a little tradition, and an endless amount of tradition to make even a little taste, and an endless amount of taste, by the same token, to make even a little tranquillity"—and, I may add, to accomplish the miracle of art.

We have history. Our soldiers have in these later years made history—glorious history. We have traditions. But we need more taste. Art develops taste. Education lays the foundation. A man may be a trained scientist or investigator or economist and yet may be wholly lacking in taste and real culture. Art not only develops taste but it gives joy and a meaning to life.

Untaxed art pays.—Art in the end would pay for itself as a necessity. France used to sell millions of dollars' worth annually not merely of art but of other works to the rest of the world, mainly because the artistic instinct and the art spirit have been fostered in France for generations. The French people have the artistic instinct and the art sense and their products are finer and better than those of people without taste and without the art sense, and therefore are bought by other nations. That principle is not limited to pictures that one sees on the walls of museums or to sculpture in art galleries. It enters into almost everything that is worth having in life. Taste and the art sense are important in everything where form, design, color, modeling, or decoration enter.

If we want to compete with the rest of the world in the finer grades of products, if we want to raise the standard of our export products so that they can compete with the works of France, England, Italy, and other countries, where art is fostered and not taxed, it will be wise for us not to tax sales of works of art.

To tax art as a luxury would be unworthy of our country. It is unnecessary. The revenue derived from it would be comparatively small.

Advantages of art education both in schools and museums are restricted and impaired by the tax on art sales.

In 1913, as counsel for the Association of American Painters and Sculptors, I received over 500 letters from publicists, college professors, art museums, and art associations, university presidents and educators and prominent writers and artists, all protesting against the continuance of the tariff on modern art and urging the removal of the duty entirely. I made a digest of a small number of those letters, and that digest on 26 printed pages was one of the records submitted to the Senate Finance Committee.

An equally large and emphatic number of protests would, I am confident, now be made against the continuance of the sales tax on art if there was time to obtain an expression of opinion upon the subject from such institutions and from men of science and men of letters, and from writers, educators, and men of affairs. A vast amount of material would soon be at hand in case of such a public protest.

For the reasons that led Congress in 1909 and 1913 to take the tariff off art and for the other reasons that I have given, I urge that the tax on art sales be not continued.

A sense of the beautiful and the artistically interesting is the artist's most valuable possession. The true artist often labors and suffers over his work. All that he asks is a bare subsistence. It is well known that most of our artists have only a bare subsistence. But they do not complain. The world needs art more than art needs life.

The importance of art and of the cultivation of a sense of the beautiful in all its stages is enormous. A man may be a moralist in life or a great economist or a great statesman, but that is not enough. The sense of what is fine and thrilling—that is, the sense of the beautiful—is in France the spring of action, for which reason France leads the world.

We need the deeper cultivation of the artistic sense in order that to people generally the beauty of our country, its hills and valleys and lakes, may be apparent, and that it may be felt by those who do not now admire it. As a rule, until artists have opened their eyes, people go through life seeing little of the beauty that surrounds them.

I am told that in Denmark every artist who has produced a picture of a certain merit is at once entitled to a government pension, and gets it. Instead of taxing art our Government might follow some such plan as that of Denmark.

I have said that to tax art sales would be something like taxing religion. It would be exactly like taxing education. Art sales should be untaxed because art has a civilizing influence and it tends to drive out other things that are pernicious with hatred and fanaticism.

I regard artists as constituting almost a priesthood. And so the best of them do. The road of the artist is often painful, the struggle severe, before he attains to purity of form and to "the beauty that never wearies and never satiates." The true artist becomes ever more and more difficult and harder to satisfy with his work. His life is a constant struggle, as every great artist knows, a struggle against bad taste, against commercialism, against sentimentalism, against the demand of the public for work resembling the work of older men, and often against poverty. The true artist's path is often beset by temptations to follow in the track of those who have had ephemeral successes. The artist often makes his fight as a solitary—alone. No great fortune is his lot. High prices do not come his way.

A tax upon art sales is a tax upon creativeness, a tax upon refinement and taste and culture.

I have compared true art to science and religion. What the hospital and the operating room are to the great physician and surgeon, what the laboratory and the research institute are to the scientist, the studio of the artist is to the artist. The studio is the scene of the artist's struggle to create, the place where he succeeds when he creates beauty or where he fails; and when he fails he must try again and brood and think and dream and struggle till the miracle of art be achieved. Many artists who live poor and die poor could

make better livings and more money in other professions. But to them art is a religion and they form a priesthood, as true scientists do.

There is no demand for singling out art sales for taxation. On the contrary, public opinion would approve the act of Congress in recognizing the relation of art to education and science, if not to religion. Even in this day when we need all the revenue we can raise, we of this country do not want to go on record as being in such a panic over raising revenue that we feel compelled to continue the tax on art sales. The proposal during the war to tax art in England as a luxury was abandoned by the British Government.

It is quite true that no one need buy pictures. Yet pictures are not luxuries. They constitute one of the most essential parts of national education. What makes the right kind of patriotism? Affection for the fields, lakes, woods, and mountains, and the history, and the people of one's country. There is the wrong kind of patriotism, which is mere vanity and swagger, and which has as little to do with patriotism as a rich woman's pride in her automobiles or expensive gowns has to do with home affection. The true kind of patriotism grows out of affection—affection for the people and their ways and looks as well as affection for the woods and lakes and the country and its history. And who is it that possesses this affection? Is it not the artist who paints the landscape—who makes pictures of the people?

One is tempted to point out that artists are not spoiled children, that behind every work of art must be feeling, a genuine spontaneity of affection or sympathy or longing, and that art is vital for Americans in order that they may acquire the habit of brooding over their country and its landscape and its people and watching them and noting all their changes. The point that I insist on is that art is not a luxury but an education for the people. Artists are the true educators and for that reason we must guard against any prejudice against artists. Artists are diligent men, none more diligent, and all the more so because, like men of science and learned students, they love their work. Artists give lessons—lessons in how to love the country in which they live and where they were born, and lessons in pity and affection and sympathy and admiring respect for our fellow men. Great novelists and great poets do this, of course, and the circumstances are often such that it is possible for them to make money. For painters and sculptors it is exceedingly difficult even to make a competence. There is no printing press by which to multiply their pictures.

If America is to become great in the arts as she is in technical skill, in manufacture and in commerce, she must encourage her artists. America can be to her artists a wise or a foolish mother. She will be wise if she leaves art free of all duty. The policy of the Government adopted in 1909 and reaffirmed in 1913 should not be reversed.

Because the tax upon art sales is a tax upon civilization and culture, and because the revenue from it is small and uncertain, I sincerely hope that the section taxing art sales will be repealed.

POINT IV.—SCIENCE AND ART SHOULD NOT BE SUBJECT TO ANY TAX.

The influence of art on the business, industrial, and commercial life of the country is not always appreciated. Congress is imposing a duty upon foreign dyes, principally German dyes, for the encouragement of the American dye industry. It is well known now that the great chemical plants of Germany in which the dye industry had been developed were not only a source of great revenue to their owners and to the German Government before the war but were the chief agencies and means of Germany for the manufacture of poison gas during the war. An instructive exhibition has recently been held in the large assembly room of the House Office Building in Washington by the Chemical Warfare Section of the Army, which showed how easily dye or chemical plants in Germany were converted—within a comparatively short time; a very dangerously short time—into plants for the manufacture of mustard gas and other deadly poisonous gases. It was there shown how the addition of a few molecules would turn a perfume into a deadly gas. It was demonstrated how easily plants for the manufacture of dyes and perfumes could be turned into plants for the manufacture of deadly poison gases.

Very vivid illustrations, too, were given of the different kinds of dyes that have been developed, and illustrations were also given of the different kinds of colors made from the dyes, till one end of the room looked almost like an exhibition of some modern paintings by the great masters of color. Dyes are used for colors in the applied arts. Painting is largely a matter of selection of color and form, of placing one color or a group of colors in contrast to others. Color and form enter into printing, fabrics, furniture, ironwork, architecture, and many

other products and commodities. The superiority of the French in many departments of life is due largely to the cultivation of art in France for many generations. To retain the sales tax on modern French art tends to exclude the work of the great experimenters in color and form like Cezanne, Van Gogh, and Gauguin and living masters like Picasso, Matisse, and Derain. How foolish it would be for Congress in one act to attempt to build up an American dye industry and in another act to tax modern art with its miracles of new color forms and combinations.

No one can visit our art museums on Saturday afternoons or Sunday afternoons or on holidays without becoming convinced that art is to be regarded truly not as the luxury of the few but as the necessity of the many.

The advantages to the artists and to the people from free art are so great that the small revenue that could be derived from the duty should not be considered.

The art museums of the country are one in their efforts to give the people of their sections the best representations of both the work of artists of to-day and that of the old masters.

The act of Congress of 1913 removing the duty on modern art was the most beneficent, the most civilized, and the most helpful step ever taken by an American Congress for the promotion and encouragement of art. Since that time museums have sprung up all over the country and museums then only recently founded have been enlarged and encouraged in their art and educational work. The directors of those museums can not go abroad to buy works of art. Since 1913 exhibitions of contemporary art and of art less than one hundred years old have been freely held not merely in New York City and in San Francisco and in Chicago but in many other cities of the country. To those exhibitions the directors and heads of American museums have gone and have studied the works of the artists shown there, and have been able to select and purchase representative works after their personal study. The same is true of private collectors and, as I have said, museums depend very largely upon gifts and bequests from private collectors and loans. From the mere fact that there are so few fine works of contemporary art in this country, our students who can afford it have to go abroad to keep in touch with vitalizing influences. But few American art students have the time and money to go abroad.

For a civilized people a tax on art sales is as defensible as a tax on thought.

The placing of a tax on sales of works of art is but raising a barrier against education and culture.

A great work of art is not like a great mechanical invention, or a piece of literature the reproduction of which may encroach upon the rights of the author. The original copy is the sole property in question. There is no protection possible to anyone through taxing it. Genius has no pedigree, produces no cheap labor problem, and leaves no posterity.

There should be no tax upon the developments of man's moral, æsthetic, or intellectual nature. Art is one of the means of developing every side of his nature and should be as accessible as the air we breathe, if it be in man's power to make it so.

All of the artists and museum directors who have been communicated with are against any tax on art sales.

American art needs the stimulus and the shock that the study of foreign contemporary art will give it. If we can not have the best art in the world, we had much better have none at all. All true artists are champions of untaxed art. Our artists have nothing to lose by untaxed art. Those that have open and elastic minds have everything to gain by it. Better no great endowments, no great art museums or great art institutes, better no art schools even, if our artists are to be provincial in outlook and are to devote themselves exclusively to soulless and spiritless work, devoid of taste and culture, or to the production of flabby or wooden imitations, showing merely artistic stagnation, without the spark of vital art and "without high purpose and glimmering all over with the phosphorescence of mental decay."

We have all sorts of art commissions, municipal, State, and National. We have many kinds of academic art bodies. Art museums, large and small, are springing up all over the country. We have in abundance the means of making modern art known. The removal of the present 10 per cent sales tax upon works of art will do more for the real advancement of American art than any other thing. To remove the present tax on art sales will encourage foreign artists to send their work here, and will do more than anything else to spread culture and the love of true art throughout the country.

CONCLUSION.

Because of the educational value of art, because of its practical value in the interest of art museums and art galleries to encourage the building up of private collections which ultimately come to art galleries and museums, because the growth of American art will be stimulated by untaxed art, because of the manifest advantages of untaxed art to art education both in schools and museums, because it is generally considered that it would be uncivilized to tax sales of works of art because art promotes learning and culture, because to civilized people a tax on art sales would be as defensible as a tax on thought, the present tax of 10 per cent on sales of art should be repealed.

NEYLE COLQUITT, WASHINGTON, D. C.

Mr. COLQUITT. Mr. Chairman, and gentlemen of the committee, Mr. Henry S. Mitchell, my associate, appeared before the committee yesterday on behalf of the art dealers and art museums.

He was asked a question by a member of the committee, Mr. Tague, as to whether he represented any dealers outside of New York City, and he mentioned that he represented some museums outside of New York City.

I would like for the record to show that in addition to New York art dealers and museums we represent A. G. Hetherington, of 1713 Sansom Street, Philadelphia, Pa.; Albert Rosenthal, 1722 Walnut Street, Philadelphia, Pa.; H. O'Brien & Son, of Chicago, Ill.; the Fellowship of the Pennsylvania Academy of Fine Arts, Philadelphia, Pa.; the City Art Museum, St. Louis, Mo.; the Arts Club of Philadelphia; the Hackley Museum, Muskegon, Mich.; Edward W. Redfield, artist, Centerbridge, Pa.; and various other artists, who are opposed to a tax on art.

Mr. GARNER. Let me ask you one question, Mr. Colquitt. You say that art is on the free list?

Mr. COLQUITT. Yes, sir.

Mr. GARNER. You yourself have been a clerk of this committee and you are supposed to know what the bill contains. The chairman of the committee looked at the bill, and he says that art is not on the free list, except where it goes to certain institutions. Otherwise it is in the basket clause, and those who import it will have to pay duty on it.

Mr. COLQUITT. It is in effect on the free list.

The CHAIRMAN. How is that?

Mr. COLQUITT. Original works of art are practically all on the free list.

The CHAIRMAN. No; they are not. The only art that is on the free list is where it goes to certain institutions that are named in the bill.

Mr. GARNER. Otherwise, those who purchase art, if it is purchased by others than those mentioned in the bill, it goes into the basket clause and you have to pay duty on it when you import it.

Mr. COLQUITT. We have no objection whatever to what is in the tariff bill. We are opposed to a tax on American art.

The CHAIRMAN. What you are speaking of now is an internal-revenue tax?

Mr. COLQUITT. I am speaking of a tax upon the artist and upon art.

Mr. YOUNG. A sales tax?

Mr. COLQUITT. An excise tax.

The CHAIRMAN. What paragraph?

Mr. COLQUITT. 902.

Among others, I have some letters here which I shall ask the privilege of filing in order that they may go into the record. These letters are from Gari Melchers—he is one of the very prominent artists. These are artists whose names I am reading: Ivan Golinsky, of New York City; Childe Hassam, of New York; John F. Carlson, of Woodstock, N. Y.; Chauncy F. Ryder, Milton, N. H.

Mr. FREAR. That does not apply if it is sold by him?

Mr. COLQUITT. How is that?

Mr. FREAR. That does not apply to art that is sold by him?

Mr. COLQUITT. No; but he makes the point——

Mr. YOUNG (interposing). You stand for the same thing that Mr. Mitchell advocated before the committee yesterday?

Mr. COLQUITT. Yes. I am merely giving you the names of the additional people we represent.

The CHAIRMAN. Mr. Colquitt, you do not want this tax imposed?

Mr. COLQUITT. We are against the imposition of this tax; yes, sir.

The CHAIRMAN. You want it removed?

Mr. COLQUITT. Yes, sir.

The CHAIRMAN. That is what everybody usually wants that is appearing before the committee—wants to have it put upon somebody else. Where would you put it?

Mr. COLQUITT. Well, I could offer my personal suggestions to the committee, but I do not think they would be worth a great deal. I think that the committee can find some other place to put the tax. A tax on matches would raise much more money.

The CHAIRMAN. I know, everybody that is appearing before us here, whether the tax is great or small, wants it removed and put on some other fellow.

Mr. YOUNG. You are the first man to suggest any other place to put it, and I would like to know if you have some more suggestions, some more places to put it?

Mr. FREAR. Do you suppose that the American people would prefer to have a tax on industry, in preference to so-called luxuries, such as art, although they are very desirable, and do you suppose that they would prefer to have a tax placed upon matches instead of upon art?

Mr. COLQUITT. Yes, sir; I believe they would. One is a tax on smokers and the other is a tax on education. Art is not a luxury.

Mr. FREAR. Not smokers alone.

Mr. COLQUITT. Four-fifths of the matches are used by smokers. A man that smokes a pipe spends half of his time lighting it.

Mr. FREAR. Do you think that all things that we speak of as art is really art?

Mr. COLQUITT. No, sir; but it is classified as art in this bill.

Mr. YOUNG. Have you any other suggestion as to the raising of money?

Mr. COLQUITT. No, sir; I would be very glad to file a memorandum with the committee, if you think it will be worth anything, and I would also like to file this letter from Frederick Ballard Williams, who is president of the Salamagundi Club of New York, the largest art club in the United States, giving reasons why the tax should be removed; from F. W. Deering; Dwight W. Tryon——

The CHAIRMAN. Will you put those in the record, if you please, Mr. Colquitt?

Mr. COLQUITT. I will not read the rest of the names. We will be pleased to file these letters with you. They are copies of letters addressed to the chairman. Most of them were written when your committee last had this question under consideration, but they are timely now.

The CHAIRMAN. Leave them and we will put them in the record.

Mr. COLQUITT. I will ask for leave to print in the record.

Mr. GARNER. That is all you will get anyway.

Mr. COLQUITT. I thank you very much, Mr. Chairman.

LETTERS FROM ARTISTS.

New York, May 23, 1919.

DEAR SIR: The present tax of 10 per cent on works of art is very distressing to painters, for it is working hardship to the artists, who find that the art dealers have hesitated to buy their pictures outright, as long as a tax is levied on the resale.

As a body the artists have not been at all prosperous during the four years of the war, and so much of their time and labor was devoted to special war work, like the painting of target landscapes, posters, and pictures for Liberty loans, all done without any remuneration and solely for national purpose.

It would be a great help to us if you would favor the removal of this tax on works of art.

GARI MELCHERS.

New York City, May 25, 1919.

DEAR SIR: I am sure that the gentlemen of your committee must have overlooked the educational value in art, for they are too well enlightened not to know what a great factor art has been in the civilization and the spiritual development amongst people.

If the tax law is not repealed the Government would thereby indicate that the purchase of works of art is similar to the purchase of any other article in the luxury class, and good citizens would certainly refuse to buy.

Dealers will no doubt try to sell our work on a commission basis, but will not buy outright; they will not invest in goods for which the market has been reduced, and upon which a large tax is levied on the resale. Artists need the dealers, for often they are far seeing and buy works of art before they are generally accepted by the public. A tax would be a hardship on the artist, seriously curtail the production of real art and, above all, put a tax on education. I am,

IVAN G. OLINSKY.

TO OUR REPRESENTATIVE IN CONGRESS:

Any tax on the fine arts seems to me to be the most short-sighted policy that a nation can pursue. And now that America has a well recognized and living art we propose to tax it, making it more difficult for the dealers to purchase direct from the painters or sculptors. For as the dealers in works of art desire to sell (in fact must sell at a profit to continue in business) and enlarge his circle of clients a tax must tend to decrease and stop interest in making collections of American paintings.

CHILDE HASSAM.

Woodstock, N. Y., May 24, 1919.

DEAR SIR: May I presume to solicit your aid in the efforts being made to repeal the bill taxing the sale of works of art.

It is not immodest, I think, to assume that art is of educational value in the life of a nation—that the knowledge of and craving for beauty is not only commendable but necessary toward the attainment of that higher development for which we are striving. The creations of the artist can therefore be rated neither superfluous, nor as a mere luxury. In the recently closed grim necessity of war the artist gave what aid he could toward a successful issue; this in face of the fact that his profession was probably hardest hit by war conditions than any other creative work. With the coming of peace and the resumption of normal activities the artist still finds considerable handicap in prohibitive conditions encumbent upon the sale of his wares. The dealer is not encouraged to buy direct or outright from the artist so long as the tax mentioned is levied on the resale of such purchases. The artist can not possibly undersell to make up the dealer's deficit.

Is it not possible, therefore, for the encouragement of art in this country, to place works of art exempt from taxation? It is toward this end that I appeal to you. I shall be deeply grateful to you for your interest in our cause.

JOHN F. CARLSON.

MILTON, N. H., *May 23, 1919.*

DEAR SIR: Inasmuch as the disposal of my work depends considerably on selling my paintings direct to art dealers, I write to urge your serious consideration of a repeal of the tax upon art. Very surely there can be no return to the Government at all adequate compared with the hardship which the tax imposes upon the artist.

In common with all the artists of my acquaintance, I deplore the depressing influence not only upon the business of our profession but its bad effect in principle upon the art interests of the country.

CHAUNCEY F. RYDER.

PHILADELPHIA, *May 19, 1919.*

DEAR SIR: An artist by profession, whose pictures are not amenable to the tax on the sale of pictures, I earnestly protest the continuance of the tax on pictures. Pictures are public property, whether in the hands of private owners or public institutions. Every purchaser of an important painting is the instrument of an art development, and the larger their number the greater range and effect of their distribution. The purchasers of paintings of real value are merely custodians for the future generation until they find their resting place in a public gallery. Art development is a nation's greatest commercial asset and the distribution of good paintings over our broad country the surest method of helping it along.

ALBERT ROSENTHAL.

NEW YORK CITY, *May 24, 1919.*

DEAR SIR: In the matter of a probable repeal of the 10 per cent tax affecting the sale of paintings, may I venture to call to your attention the strong feeling of all the artists that I have spoken to about the question?

I have been president of the Salmagundi Club of New York. This club is the largest artist's club in the country, and the painters feel that the present action of the tax of 10 per cent, while it does not affect them directly, as the sale of a living American artist is exempt, it is indirectly quite as serious and a rather disastrous matter, as it affects the purchase of their work by the dealers.

The artists of New York and the country have given their time and talent freely during the whole period of the war, making hundreds of posters and designation targets. During that time the sale of their work, due to war conditions, was very often cut down to next to nothing.

Now that their affairs were about to be more promising, the tax on sale of paintings comes to make the serious handicap that it has proven. The returns derived from this source hardly would seem to justify the embarrassment and trouble caused.

I know you are giving this question your careful consideration and hope the effort for repeal may be successful.

FRED'K BALLARD WILLIAMS, N. A.

NEW YORK, N. Y., *May 22, 1919.*

DEAR SIR. I strongly urge the repeal of the laws taxing the sale of pictures and frames. All artists depend more or less on the sale of pictures to dealers, so, of course, the tax of 10 per cent is subtracted from the price the artist receives; in addition he pays 10 per cent on his frame. This makes a very great hardship on the artists and is evidently designed to eliminate art from the country.

T. W. DEWING.

SOUTH DARTMOUTH, MASS.

The 10 per cent tax on art sales is injurious, both from an educational and economic point of view, and will prove a boomerang.

The dealers refuse to purchase the work of the artist and the Government loses the amount which would accrue in income tax from both merchant and artist; a clear case of unwise legislation which kills the bird which lays the golden egg.

DWIGHT W. TRYON, N. A.

PHILADELPHIA, May 31, 1919.

MY DEAR SIR: Will you kindly permit me to place before you one or two matters in connection with the proposed tax on sculpture and painting which may have some pertinent bearing upon the question:

First. The artists of the country have suffered from lack of patronage during the war, yet they have bravely and loyally supported the Government by working, without remuneration, in the interests of the great loans. The proposed tax will act again as a detriment upon collectors of art.

Second. Art is not a luxury but a necessity to the highest civilization. The Italian proverb says: "Art is the bread of gentle spirits."

I have the honor to be,

J. MCCLURE HAMILTON.

NEW YORK, May 22, 1919.

DEAR SIR: I am strongly impressed with the bad policy of taxing American art. It's an infant industry here, as much as the dye industry, which you protect.

Our foremost artists went abroad for recognition—and stayed there—Elihu Vedder in Italy, Whistler and Sargent in England, and France. America would never have given them their success and fame.

Whistler's "Mother," owned by the French Government, would sell now for \$500,000 or more. It was exhibited in New York, Philadelphia, Boston, and Chicago, and for sale at only \$1,200.

In every great age of civilization art was encouraged by the State. Take Athens at its prime and the Renaissance under the Medici. In Rome alone 60,000 antique statues have been dug up.

In New York this season there were three exhibits by artists of their works. None of the three sold even one work, and their expenses for framing amounted to hundreds of dollars.

In France in the middle of this war the French Government bought a Degar at his sale for 400,000 francs—and France was bleeding at every pore. Artists must live; a tax on art is a disgrace to the Nation.

WILLIAM SASTAIN.

UNIVERSITY OF PENNSYLVANIA,
Philadelphia, May 20, 1919.

DEAR SIR: I am writing as an artist, on the subject of the 10 per cent tax on works of art, to protest against its continuance, on account of the hardship it places upon sculptors like myself, who produce works in bronze and marble.

It is exceedingly expensive and difficult to cast and market these works except through a dealer, and most of the sales to museums and private parties involve sending them around from place to place. Although the tax is on the dealers, it really results in increasing the price to such an extent that it will drive these works from the market, and will, in my belief, defeat the purpose of raising revenue, for which the tax is devised.

The sale at present is very limited, owing to the high cost of production, which leaves a very small margin of profit.

R. TAIT MCKENZIE.

HOTEL GOTHAM,
New York City, N. Y., May 21, 1919.

DEAR SIR: As a collector of American paintings and ancient works of art,¹ I am taking this opportunity of writing you in regard to the tax on works of art as embodied in the revenue bill under article 9, section 902.

This is a very destructive measure to the art interests, as I understand that every sale is subject to a 10 per cent tax whether between dealers or to the ultimate consumer.

This, of course, makes the purchase of works of art prohibitive, not only by museums and educational institutes, but also by private collectors who have in view giving their collections to the people.

I am also advised that it is very detrimental to the interests of the American artists, as they are unable to sell their works direct to the dealers as heretofore and are forced to consign their productions and await the sale of same before realizing any return.

Considering all the above facts I would ask that when the matter comes up before the Ways and Means Committee you give it your serious cooperation if you are impressed with the injustice of the tax as it now stands.

CHARLES L. FREER.

¹ Mr. Freer, now deceased, gave to the Nation \$1,000,000, with which the beautiful art museum next to the Smithsonian Institute has been erected. He also donated 6,500 of his works of art.

NEW YORK, May 23, 1919.

DEAR SIR: In re the repeal of the tax upon art, the bad educational feature will be urged, because it is obvious. In addition, its effect in the last analysis is to take the artist by the throat and destroy him. Dealers are unwilling to buy from the artists because, as they sell to each other, the tax becomes cumulative, and so destructive in its operation.

The net result is therefore to rob the artist of his income, to reduce greatly the income of dealers, all of whom have paid generously in the general income tax collections; thus the tax defeats its own purpose and reduces rather than enlarges the Government's returns from this law. All artists are opposed to it.

ELLIOT DAINGERFIELD.

CAPE COD SCHOOL OF ART,
Provincetown, Mass., June 5, 1919.

DEAR SIR: I understand that you are now bringing up in Washington the question of the repeal of the tax on the sale of works of art.

Although this tax was not intended to work against the best interests of the artists, it has been a great hardship to us. In the past, dealers would buy our pictures outright very often before they were anywhere near completion, in order to give us funds to continue our work, but as they now have to pay a tax when such a picture is resold they are forced to discontinue this practice.

The very fact that a tax has been placed on works of art has given to the public the idea that they are luxuries and therefore should not be purchased by good citizens.

As you will readily see, this tax is a very serious matter to us, as it is greatly reducing our income and in turn will reduce the revenue to the Government on our income taxes, so that anything you can do in the way of having it repealed will be greatly appreciated.

CHARLES W. HAWTHORNE.

LETTERS FROM DEALERS.

NEW YORK, May 20, 1919.

Hon. J. W. FORDNEY,
Ways and Means Committee, Washington, D. C.

DEAR SIR: We would appreciate your using your best efforts to having section 902 of the present revenue bill repealed, as it is of great detriment to our business.

The wording of this section is such that every transaction that we make, whether between dealers or to the ultimate consumer, is taxable.

The nature of our business requires works of art to change hands between dealers before reaching the ultimate consumer. Under this section before a work of art could reach the ultimate consumer it might have had four or five taxes paid on it. You can readily understand that business is not possible under these conditions and that therefore the taxes collected under this section will be considerably less than what our income and excess-profits taxes would be if our business could be operated in a normal manner.

Works of art are the only articles that are taxed in this manner, as all the other sections under Title 9 indicate from whom the tax should be collected; that is, either when sold to the ultimate consumer or by the producer, manufacturer, or importer.

You will see how discriminating and unfair this tax is, and we would ask you to help us to get relief from this impossible situation.

M. KNOEDLER & Co.

NEW YORK, May 20, 1919.

DEAR SIR: With reference to the efforts which the art dealers of New York are making to secure a repeal of section 902 of the present revenue bill, we should like to state as our individual contribution to reasons why this tax should be eliminated, that we regard such a tax as a great deterrent to business. The most cogent argument we can use is that the revenue derivable from such a tax would fall very far short of the revenue which would accrue to the Government from the ordinary income and excess profit taxes.

Speaking for ourselves, it has already hurt our business to a considerable degree, as is evidenced by the total volume of business we did in March and April, 1918, as compared with the total for the same months of this year. For this reason alone the imposition of such a tax is a considerable hardship upon a business which surely deserves the support of the Government.

Inasmuch as both the French and English Governments have deemed it wise to abandon such a tax, we submit that the Federal authorities here might perceive in

their action an additional argument for the repeal of a tax which is admittedly causing a great amount of inconvenience and resentment in all circles.

We sincerely trust that the efforts being made by our representatives in Washington will meet with the fullest success.

DUVEEN BROS.

NEW YORK, May 21, 1919.

DEAR SIR: Being a member of the Art Dealer's Association of New York, I am writing you, earnestly requesting you to use your influence in having a most unjust law repealed, whereby the art dealer pays 10 per cent to the Government upon the sale of works of art.

There is no doubt that with this law the Government will destroy not only a revenue to itself through an immediate limitation on the amount received now through excess-profits taxes, but there is still a more important one—educational value—by discouraging an institution which has been built on a solid foundation, not by any special aid of our Government, but by the dealers themselves. Taken as a whole, there is not a more upright and square lot of men existing in any commercial pursuit in the world. To prove it, how many suits do you find in court, where a collector is trying to recover money paid for something which is misrepresented? That is because paintings have a set value or nearly so. They are sold by the dealer not at an inflated value, but at a price whereby the collector can dispose of them if he is not satisfied. But what collector could purchase now if the dealer complied with the law?

The following is an experience that I had in the past two weeks: In a western city there is a movement on to build an art museum. I have in the past 10 years sold to one of the leading citizens a number of paintings. He has found what good art means to a man and is trying to show to his friends what good art means to a city. I took a number of fine paintings with me. He knew their value and purchased them. In presenting the bill I informed him that an extra 10 per cent would have to be paid by him to the Government. All negotiations were off immediately. His intention was to present these pictures to the city at some future time, but he can not give to something that does not exist. He is without doubt right and should not encourage education and art if he has to pay the Government an extra 10 per cent to do so. So it will be with other collectors.

In closing this letter I wish to state that our country has produced the greatest landscape painters of any nation. The artists who produced these paintings would have been unable to do so had it not been for the American art dealer. Every great collection in this country was gotten together by the dealer and not by the collector, and it is he who should receive as much honor and courtesy by our Government as any educational institution. So I claim that if there is no tax to be paid by an educational institution there should be no tax paid by the dealer, as it is he who is the real educator even though he is not assisted by the State or Government.

Can the American Government, at a moment when American art has promise of a splendid future, afford to depress and discourage it by unfair taxation?

Again requesting you to kindly use your best efforts in having this unjust tax removed, I beg to remain,

HOWARD YOUNG.

NEW YORK, May 20, 1919.

DEAR SIR: We understand that section 902 is to be considered at the coming Congress and we wish to strongly recommend the repealing of the luxury tax.

Now that it has been in force a couple of months it is easy to see how badly it is working. It has prevented business and therefore reduced the taxes to be collected by the Government through the normal income and excess of profits taxes from the art dealers. I hope that in this coming session of Congress you will do all in your power to repeal this special 10 per cent tax on the sale of works of art.

In England and France I understand that the tax worked so badly that it has already been repealed. Now that the war is over it certainly seems wrong to impose such luxury taxes, especially as they can not yield much revenue for the Government.

From an æsthetic point of view it seems a shame for the Government to discourage anything which means the artistic development of our country, and certainly a tax which discourages the free sale of works of art does this.

H. L. EHRLICH.

NEW YORK, May 20, 1919.

DEAR SIR: I am writing you to urge you to use your efforts to have section 902 of the tax law repealed. Would say in connection with this that we feel it means

a serious loss of business to us, as there are many people, including Canadians, who will not purchase paintings or bronzes, knowing that the articles are being taxed 10 per cent, and we feel, considering the loss of business, that this would mean that the amount raised therefrom would not be as large as that raised from income and excess-profits taxes.

J. F. KRAUSHAAR.

NEW YORK, May 20, 1919.

DEAR SIR: I desire to join the protest of the various men in my business against the luxury tax, section 902, and beg to call your attention to the following figures: My business in March and April, 1918, amounted to \$216,998, whereas this year, due to this tax, our business has depreciated to \$81,645.

I think in view of this tremendous depreciation to our business, that the Government will lose more, due to the loss of our income and excess profit tax, than they can possibly gain by this so-called luxury tax, and I would beg of you, if within your judgment, to add your assistance to the repeal of this section of the luxury tax.

JOHN LEVY

NEW YORK, May 20, 1919.

DEAR SIR: According to the daily newspaper reports, the various branches of business which are directly affected by the so-called luxury tax (section 902, title 9, of the recent revenue bill), are making an effort to have these provisions repealed, and we are anxious to add our name to the list of those who have expressed their disapproval of the measure in question.

The most powerful argument in favor of such a repeal, is the fact that the law is so detrimental to business that our net income will be greatly reduced, and as a result, the loss to the Government in income and excess-profit taxes will be greater than the amount which will be collected from a tax on sales.

Furthermore, a peculiar injustice resulting from the existing law, is that although transactions between manufacturing jewelers and retailers are not taxed, section 902 puts a tax on transactions between art dealers, whereas the obvious intention of the law, was to tax the ultimate retail consumer, the individual who indulges in the purchase of the so-called luxury. Even the said individual however, complains, for to a person building a home, the decoration of the walls is just as essential as the building itself, and works of art should not be classed as luxuries.

That such a provision does not result in increased revenues to the Government, but merely paralyzes a legitimate form of business enterprise, is clearly shown by the repeal of a similar tax provision by the French Government, after a disastrous experiment lasting only a few months.

We shall deeply appreciate any effort you may make toward the repeal of the provision under consideration.

SCOTT & FOWLES.

WILLIAM MACBETH (INC.),
New York, May 22, 1919.

MY DEAR SIR: When the repeal of the luxury tax is taken up, as I understand it is to be, may I ask that careful consideration be given to the section covering the tax on works of art?

We are cheerfully paying this tax in the case of such sales as we are able to make, but there is no doubt that business is being so curtailed by it that the Government will lose more than it makes.

For example, our sale of taxable pictures fell off during the first month in which the tax was enforced about 5 per cent and in the second month about 60 per cent. As the facts of the tax become better known the proportionate loss may well be even greater.

This is a very serious matter for us, and in view of the fact that it is imposed to raise revenue it is equally serious from the point of view of the Government. Income taxes will be certainly made less in the case of all dealers who handle taxable paintings.

From another point of view, the tax is detrimental to production of the best work of our living painters. Many of them have been accustomed to turn to the dealers to buy their pictures outright from time to time to furnish them with working capital. In view of the fact that such pictures are subject to tax when resold, we dealers have been forced to discontinue the practice of outright purchase. The artist who has to worry too much about where his income is coming from can not do his best work.

These are the two important features which call for the repeal of the tax.

ROBERT W. MACBETH.

NEW YORK, *May 21, 1919.*

DEAR SIR: We would appreciate your using your best efforts to have article 9, section 902, of the present revenue bill repealed, as it is a great detriment to our business. The wording of this section is such that every transaction we make, whether between dealers or to the ultimate consumer, is taxable.

The nature of our business requires works of art to change hands between dealers before reaching the ultimate consumer. Under this section before a work of art reaches the ultimate consumer it will probably have four or five taxes paid on it. You can readily understand that business is very much handicapped under these conditions, and that, therefore, taxes collected under this section will be considerably lessened; whereas, if we are allowed to do business without such a tax, our income and excess profit taxes will be very much increased.

Works of art are the only articles that are taxed in this manner, as in all other sections under title 9 it is definitely defined that the tax should be collected from the ultimate consumer. You will readily see how discriminating and unfair this tax is, and we would appreciate greatly your hearty cooperation in having the same repealed.

C. J. CHARLES.

NEW YORK, *May 20, 1919.*

DEAR SIR: May I call to your attention that the luxury tax on art is killing the art business and can not result otherwise than in seriously diminishing the revenue which the Government could and should derive from this source.

As a concrete example, two-thirds of my business for the past six months was done prior to the imposition of this tax, this notwithstanding the fact that the months of March and April are customarily worth more than all the other months of the year combined and would have been markedly so this year but for the tax.

Owners of property are loath to part with said property when the act of parting automatically costs them 10 per cent of its value. We as dealers must realize more than 20 per cent (inclusive of expense) before there is any profit. Finally, the customer, realizing that he has this 20 per cent besides a normal profit to pay, declines to buy, and the business comes to a standstill.

This is what is happening, with the conditions becoming increasingly serious. Unfortunately for the Government's revenue, and ourselves, there are two classes of luxuries—cultural luxuries and frivolous or ostentatious luxuries. The first, under which we come, are put last by most people. They can do without them and their neighbors won't talk. They are doing without them.

FRANK K. M. REHN.

NEW YORK, *May 20, 1921.*

DEAR SIR: Having suffered from restraint of trade during the war, we write to you to register our feeling in the matter of the 10 per cent tax on works of art, imposed upon us.

The Government would profit more through the income tax if we were allowed to do business unrestricted, whereas the present luxury tax will compel us to close our doors. We consider this a vital matter to bring this to your consideration.

E. & A. MILCH (INC.).

NEW YORK, *May 21, 1919.*

DEAR SIR: We are desirous of securing your active cooperation in the repeal of the present luxury tax as embodied in article 9, section 902, of the present revenue bill. Since this bill has gone into effect it has been very detrimental to the art business, as we are the only class that are taxed at 10 per cent gross sales tax on every transaction; that is, as between dealers and also to the ultimate consumer.

It must also have a very bad effect on the American artists whose works can not now be sold to dealers that only take them on consignment, which works a great hardship on the producer of such works.

If the Government is desirous of securing the greatest return in revenue they will undoubtedly be able to do so by removing this tax and allowing business to take its normal course.

Hoping when the matter comes up before the Ways and Means Committee you will see the justice of our position and give us your hearty support, we beg to remain,

F. W. FRENCH & Co.

NEW YORK, *May 21, 1919*

DEAR SIR: Since the luxury tax on works of art (section 902 of the present revenue bill) went into effect the art business has been seriously endangered, for, with the 10 per cent gross sales tax, it is practically impossible to sell to the ultimate consumer.

This is due to the fact that in our particular business works of art pass from dealer to dealer before reaching the final purchaser, in which event, under the present law, the tax may have been paid several times.

Furthermore, the American artist and the American art are materially affected, for the dealer, instead of buying his works outright, will merely take them on consignment because of the tax, the artist not to receive payment until the article is sold. By this measure the artist is deprived of his livelihood, for, as a class, they are entirely dependent upon the returns from the sale of their works.

It is obvious that the taxes so collected will be considerably less than the income and excess-profits taxes would be if we were permitted to conduct our business in the usual way. This tax applies on every sale between dealers, and, as works of art are the only articles taxed in this manner, you can readily see how unjust this measure is and how seriously it cripples our business. Therefore we would greatly appreciate your efforts in having it repealed.

HENRY REINHARDT & SON.

ADMISSIONS TAX.

EXEMPTION OF DISABLED EX-SERVICE MEN.

H. T. GIELOW, CHICAGO, ILL.

The CHAIRMAN. Please state who you are, whom you represent here, and where you are from.

Mr. GIELOW. My name is H. T. Gielow. I am from Chicago. I would like to correct this error, Mr. Chairman and gentlemen of the committee. I am not really representing the national war work council of the Y. M. C. A. I am a commercial man who happened to get into the war service of the Y. M. C. A. in July, 1918, and I have continued with the disabled men in the hospital work because of the possibility of getting a furlough from my employers from time to time, who happened to be very staunch Y. M. C. A. men. Since December of 1919, I have worked as a war work secretary with the United States Public Health Hospital No. 30, at Chicago with the disabled men. The matter which I am about to appear before you on is the exemption from war tax for disabled ex-service men, particularly as it relates to that of amusements. The law as it now reads does not exempt the disabled ex-service men from these war taxes. They must pay them. There is one in particular, which every American soldier, sailor, or marine likes, and that is a ball game. The management at Chicago of the Cubs and the Sox grant these men free admission but the Government insists that the war tax must be paid.

Mr. FREAR. By every one.

Mr. GIELOW. By the disabled ex-service men.

Mr. FREAR. Civil War veterans and all others have to pay it.

Mr. GIELOW. They do. I am not acquainted with the facts. The theaters and all places of amusement come under the same law.

Mr. GARNER. In other words, if I understand it, the various amusement associations and industries in the country are willing to donate their services and their entertainments to the American wounded soldier, but Uncle Sam says that he will not have anything to do with that and collects the 10 cents.

Mr. GIELOW. That is the idea. But even if he goes into a theater himself and has a few dollars to spend, if he buys a \$2 ticket or a \$1 ticket he must pay the war tax and it may be that that particular man is discouraged because of his physical condition.

Mr. FREAR. Are you speaking for any bill now? How does it discriminate so that the ticket seller could determine on what ticket

this was paid, or whether this was the man who was permitted it? I am wondering how you would determine it.

Mr. GIELOW. I always send a representative to the particular place of amusement.

Mr. FREAR. There are thousands of places in the United States where you could not go. How do you determine there?

Mr. GIELOW. I agree with you on that score.

Mr. FREAR. How does the bill provide?

Mr. GIELOW. I have not outlined anything in the bill, but my suggestion, if I may offer it, would be this, that the Internal Revenue Department work out a book with a stub or coupon attached, and when this ex-service man comes into this place of amusement he keeps a record in the stub of the date and the place that he is entering and he fills this other stub out and hands that in, in lieu of the war tax—

Mr. FREAR. That would entail great difficulty.

Mr. GIELOW. Stating his compensation and the fact that he is a patient of the United States Public Health Service.

Mr. FREAR. Irrespective of the amount of compensation that he may receive?

Mr. GIELOW. Yes, sir; that is a detail that I think will be worked out by the Internal Revenue Department. I intended to go into that but you beat me to it.

I will read an amendment as we proposed it, a copy of which has been sent to all the members of the committee, some of whom have responded. This is the wording we have provided. It may not be couched in very legal terms and may have to be revised:

No tax shall be levied on admission to places of amusement where such admission is given free or where the ticket is purchased or presented by ex-service men who are patients at any United States Public Service hospital, Government-owned or contract, or by persons receiving Government compensation in any form for physical or mental disabilities arising out of the World War.

Mr. FREAR. Does that include the veterans of the Civil War?

Mr. GIELOW. No, sir; that does not.

Mr. FREAR. How do you distinguish? Why not?

Mr. GIELOW. I do not understand particularly.

Mr. FREAR. That will be a question presented to the committee.

Mr. GIELOW. Yes; that can be added to later by the internal revenue. I want the committee to see the point that I am appearing here particularly for the disabled men of the late war.

Mr. CRISP. Do you not think that if this exemption was given these soldiers, that the Spanish-American veterans and the Civil War veterans would be entitled to the same exemption?

Mr. GIELOW. That they would?

Mr. CRISP. Yes.

Mr. GIELOW. I will say I think they would. I would really feel so, personally. I do not know that I would want to speak authoritatively on that. The reason I am appearing on this particular issue for our men in these hospitals at the present time is this: On certain records that we have personally in our particular hospital it shows that there are about 60 per cent of the men who have no compensation. They are men who are discouraged because of their physical condition due to service in the war, and I go out to the ball games in the afternoon and see these men and ask them if they would not like to go to the ball game, and they say, "Yes; but we have not

got the car fare nor the war tax." We have paid their car fare and war tax to the ball games where they have not received compensation, are not receiving compensation, nor have they the finances to take care of themselves. You know as well as I do, gentlemen, that one of the most essential things to keep peace or contentment in a hospital of any kind is to keep the men in a happy and contented frame of mind, and you take a man who is sick and who particularly feels that his sickness is due to service he has rendered to his Government in time of war, he gets selfish and self-centered and narrow, and everything looks blue to him. Now, by eliminating this war tax and exempting these men from war tax—and I am speaking for the Vocational Board men as well as any disabled men, because I have conferred with all of them—you are doing something that will give them pleasure and will change their frame of mind.

Mr. FREAR. Wouldn't it be better to begin at the other end and give them greater allowances, so that they could do that independently without receiving a gratuity?

Mr. GIELOW. My personal opinion would be that it would not.

Mr. FREAR. That is, no matter how much allowance you gave them it would not reach this matter?

Mr. GIELOW. I do not believe it would.

The CHAIRMAN. So you would rather have a man exempted from a tax going into a theater or a game instead of handing out the money to him so that he could pay that amount himself?

Mr. GIELOW. Because of this reason: A man feels that every dollar he is getting from the Government he has earned and is entitled to it, and he would still feel that he should be exempted from this Government war tax. In fact, some of the men, in discussion with them, feel that they should be exempted from all war taxes—for instance, where a man goes in and buys a suit of clothes. A man got a check the other day for back pay, for \$80, for some hospitalization. He had to buy a suit of clothes because he did not have anything to go out on the day he was to be discharged. I went down town personally with him and bought a suit of clothes, a pair of shoes, and fitted him out completely, because he had absolutely nothing fit to wear to go out. The biggest part of that money was spent on clothes of various kinds, which he needed to go to his home town.

Mr. FREAR. Does that answer the chairman's question? He asks you why it would not be better to pay the man more by giving him a greater allowance so that he could pay the tax?

Mr. GARNER. He just answered it by saying that the men felt like they were entitled to all that money, and the further reason that the soldier gets the money sometimes and spends it for other purposes, such as clothing, and being without money gets discontented.

Mr. GIELOW. That is true; yes, sir.

SPECIAL TAXES.

CAPITAL-STOCK TAX.

HUGH SATTERLEE, NEW YORK CITY.

Mr. SATTERLEE. My name is Hugh Satterlee and my address is 52 William Street, New York City. I am a lawyer by profession. I represent primarily myself, and what I have to say embodies my own

personal convictions. I do not pretend to represent a million corporations or five million farmers, and I ask that my argument be considered purely on its merits and not because it is advocated by any particular persons or group of persons.

Mr. GARNER. Is there any particular section of the law that you are going to address your remarks to?

Mr. SATTERLEE. Yes; section 1000 of the revenue act of 1918, which is the capital stock tax feature.

Mr. FREAR. But you represent some people, do you not, or are employed by them?

Mr. SATTERLEE. Yes, sir.

Mr. FREAR. And you are employed to come here?

Mr. SATTERLEE. Yes, sir.

Mr. FREAR. So that you are really representing some people and you come here for that purpose?

Mr. SATTERLEE. Yes, sir.

Mr. FREAR. That is all. I just wanted to understand that.

Mr. SATTERLEE. I understand that your committee, unfortunately, owing to the demands of the Government, can not provide probably for a reduction in the amount of taxation, so I am not advocating anything that would mean the raising of a smaller amount of taxes.

The CHAIRMAN. Where do you get that information?

Mr. SATTERLEE. From the press. If I am wrong, I will be glad to know it.

The CHAIRMAN. Don't believe everything you see in the press and only about half that you hear. [Laughter.]

Mr. SATTERLEE. Also, I understand that your committee—and maybe I am wrong in this also—does not desire that the burden of taxation as it now exists should be shifted from one group to another, so I am not advocating the shifting of taxation.

The CHAIRMAN. Then you are the first witness that has come before this committee and has not advocated something of that kind.

Mr. SATTERLEE. I think possibly I am.

What I propose is this: I propose the repeal of the capital stock tax as the most uncertain, the most unequal, and in comparison with its yield the most complicated, of all the existing Federal taxes; but inasmuch as that repeal by itself would result in a loss of revenue, my proposal embodies also that the income tax on corporations should be increased about 1 per cent or such other rate as shall be determined to be necessary in order to make up the loss of revenue resulting from the repeal of the capital stock tax.

Mr. GARNER. How much revenue comes from the capital stock tax now?

Mr. SATTERLEE. About \$93,000,000 last year. The first capital-stock tax was imposed by the revenue act of 1916. It provided for a tax of 50 cents per \$1,000 of the fair value of the capital stock of corporations, with an exemption of \$99,000. The regulations of the Internal Revenue Bureau issued shortly thereafter, Regulations 38, provided that that fair value of the capital stock should be determined, in the case of corporations whose stock was listed on the exchanges, by the average bid prices of such stock; in the case of corporations whose stock was not listed but which was sold outside of exchanges, by such sales if they amounted to enough to be any criterion of value; and in the case of corporations whose stock was

neither listed nor frequently sold, by an estimate of the value of such capital stock, without going into particulars as to how that estimate should be made, but after determining the value per share of the capital stock, the total fair value was deemed to be the value of each share multiplied by the number of shares of the corporation outstanding.

It was soon found, however, that a great portion of the corporations did not come within either class 1 or class 2, and that it was necessary to estimate the fair value of the capital stock. So Treasury decisions were promulgated to the effect that it had been determined in certain classes of corporations named that they should earn about such and such a percentage, 10 or 12 or 15 or 20, in order to make their stock worth par, and so their fair value was determined on the basis of capitalizing their earnings at a specified percentage.

The CHAIRMAN. Mr. Satterlee, will you permit me to interrupt you? How would you arrange it in the case of a holding company that is not operating at all? There are many holding companies in the country that are simply holding properties, corporations that are not engaged in active operation.

Mr. GREEN. He hasn't gotten near that far yet.

The CHAIRMAN. Oh, yes; he has. He is asking us to abolish the capital stock tax and add it to the corporation income tax.

Mr. SATTERLEE. Yes, sir.

Mr. GREEN. But he is merely making a preliminary statement.

Mr. SATTERLEE. I am just giving the history now, if I may, in order to get it all before you; but I will come to that a little later, unless you prefer to have me speak about it now.

The CHAIRMAN. No; if you prefer to reach it in your orderly way, why do it.

Mr. SATTERLEE. In the case of corporations that have no earnings, as it was impossible to capitalize their earnings, the regulations provided that their balance sheets, their book value, should be taken with certain adjustments. This was a situation that was generally recognized to be unfortunate during the summer of 1918. At that time I happened to be temporarily in the Bureau of Internal Revenue as a special attorney in the solicitor's office, and it so happened that to me was assigned the job of revising, if possible, Regulations 38, so as to put corporations more on a basis of equality with reference to the valuation of their capital stock, and I remember at that time that I had a great many conferences with the administrative officers, and the result was that we got out Regulations 38, revised, which provided for determining the fair value of capital stock through the use of three schedules or criteria of value.

First, by the book value; second, by sales, whether on exchanges or outside of exchanges; and third, by capitalizing the earnings, it being understood that those three factors were to be taken together wherever all three existed and a proper exercise of discretion and judgment made as to about what was the true value of the capital stock.

One reason for doing it that way was because it was found that in the case of corporations whose stock was listed on the exchanges, the market value, which previously had been taken where it existed as the sole test of value, had apparently had very little relation to the book value, and in some cases even to the earning value, because

there were other factors which entered into it, and it was thought that the use of these three features together, might be a step forward. As a matter of fact, it was a very desperate effort, and we realized it at the time, that to find any real basis for working out the facts satisfactorily was pretty nearly hopeless.

Regulations 38 revised continued to be the basis for the imposition of the tax until the enactment of the new law of 1918, in which section 1000 continued the tax, only making the rate \$1 per \$1,000 of fair value, and it also reduced the exemption from \$99,000 to \$5,000, which very much increased the number of corporations subject to the tax and also doubled, more than doubled, the amount of tax payable.

Regulations 50 thereupon came out, with which I had a little to do, being still in the bureau, and adopted in general the same rules laid down in Regulations 38 revised. But later Regulations 50 revised came out, which cut loose entirely from the basis of taking the market value of the stock and said definitely that the market value of the stock had nothing to do—or very little to do—with the fair value of the capital stock, and that the real criterion, or a better criterion, was the net assets of the corporation. That was a very curious result to be achieved by the Internal Revenue Bureau, because, as you gentlemen may remember in connection with the drafting of the revenue act of 1918, the Senate wanted to substitute for the basis of the tax the net assets of the corporation as they appeared from the books, instead of the fair value of the capital stock, and the conference committee rejected that and kept to the same basis which had existed in the act of 1916, which was the fair value of the capital stock. So that the result has been that the Internal Revenue Bureau in the administration of the tax—and I am not blaming it for doing it, because, as I said before, it is pretty nearly a hopeless matter to find out just how the tax should be assessed—first started with taking the fair value of the capital stock to be dependent, where possible, upon the market value, and now reaches the position where it practically disregards market and tries to take the net assets. It makes very little difference, however, to my mind, which is the basis taken, because in either event the difficulties of the tax are practically insurmountable. As you can see, determining from Washington, the value of the whole property of a corporation which may own real estate here and personal property there and real estate in another section of the country, is hopeless. It would amount to a San Francisco assessor trying to fix values in Washington or New York for purposes of local taxation.

Mr. FREAR. If that is true, what has been the history of the organization of corporations since this law has gone into effect? Has it stopped the organization of corporations?

Mr. SATTERLEE. No; I think not, sir.

Mr. FREAR. It has not affected them at all?

Mr. SATTERLEE. I doubt if it has affected them very much.

Mr. FREAR. You think it has not?

Mr. SATTERLEE. I think it has affected it very little.

Mr. FREAR. So they have gone to work, irrespective of the taxation feature, and they have organized corporations depending upon the interpretation of the Treasury Department?

Mr. SATTERLEE. The amount of this tax is not a very serious matter. It is simply an annoyance and an irritation and inequitable owing to the inequality between different corporations.

Mr. FREAR. But that has not affected them so much but that they have contributed sixty-odd million dollars, did you say?

Mr. SATTERLEE. About \$93,000,000.

Mr. FREAR. It hasn't affected them so much but that they have contributed over \$90,000,000.

Mr. SATTERLEE. It may be that consideration has affected it very little.

Mr. HADLEY. There must be very material expense involved in the administration, though.

Mr. SATTERLEE. There is, sir. Of course, there is a special division of the Internal Revenue Bureau which is wholly taken up with the administration of this particular capital-stock tax, and also the corporation taxpayers once a year, aside from checking up etc., between times, have to prepare a return embodying these three schedules.

Mr. HADLEY. Your idea is to get away from that by simply substituting enough direct tax to take its place?

Mr. SATTERLEE. On the income, yes. In other words, my sole object in advocating this is not to reduce the taxation but to simplify taxation and to make it more equal so far as the particular class of taxpayers already affected are concerned. In other words, as between the corporations themselves to equalize the tax by applying a little higher rate in another tax already in force.

Mr. HAWLEY. How much does the capital-stock tax earn?

Mr. SATTERLEE. This was about \$93,000,000 in the fiscal year 1920.

To come to the point of holding corporations, that is also a matter which has caused considerable embarrassment and irritation in connection with the administration of the tax, because inasmuch as this is an excise tax it had to be imposed with respect to carrying on or doing business.

Mr. GARNER. Let me see if I understand your position. You want to transfer this capital stock tax from the organization of corporations to the income of corporations?

Mr. SATTERLEE. Yes, sir.

Mr. GARNER. And collect the same amount of money?

Mr. SATTERLEE. And collect the same amount of money.

Mr. GARNER. But the basis of paying will be the income rather than the assets of the corporation.

Mr. SATTERLEE. Exactly. In other words, corporations which at the present time have no income still have to pay this tax.

Mr. GARNER. You think it will be a more equitable tax because you will only tax those people who make money?

Mr. SATTERLEE. Exactly.

Mr. FREAR. You mean a direct tax of a certain percentage of the income, like we have now. Then you would increase the normal tax on corporations?

Mr. SATTERLEE. Yes.

Mr. FREAR. The normal tax now on corporations is 10 per cent. If that is increased to 16 per cent, as some have proposed here in order to have it as a substitute for the excess-profits tax, would you still further increase that 16 per cent?

Mr. SATTERLEE. Yes, if that is the rate you determine upon irrespective of anything that I am saying to-day. If 16 were the rate that you would put on and you would still continue the capital stock tax, I would advocate putting on 1 per cent, or whatever is determined upon to be about right.

Mr. GREEN. But the very essence of this tax is that it is not a tax on income, but is a tax rather on the right to issue capital stock.

Mr. SATTERLEE. Well, no, if I may correct that, it is on the right to do business, because, as I was going to say—maybe this will cover what you have in mind—one serious source of embarrassment, too, in the administration of the tax—

Mr. GREEN (interposing). I do not accept your correction. We are only going one step further along. Of course all corporation taxes are levied on the theory that it is on its right to do business; but this is one feature of the business that we were taxing, and if you apply your plan you entirely change the whole theory of the tax.

Mr. SATTERLEE. I think this tax is imposed on a wrong theory. I would change the theory.

Mr. GARNER. How much taxes do we get now in the corporation tax, the normal tax of 10 per cent?

Mr. SATTERLEE. Well, what it is now is very little criterion of what it would be if the excess-profits tax, for example, were abolished, because, of course, the 10 per cent tax is imposed now only on what is left after allowing as a credit the excess-profits tax.

Mr. GARNER. If you repealed the excess-profits tax, then you would get a much larger tax out of the normal corporation tax than you do at the present time.

Mr. SATTERLEE. Very much larger. For instance, it was possible in 1918 that a corporation should pay a tax equal to 80 per cent of its income as a war-profits tax, and it paid the normal 10 per cent income tax only on the remaining 20 per cent. So the normal tax then would have been 2 per cent of the total net income; whereas, with the repeal of the excess-profits tax it would be 10 per cent.

To go on with that point about holding corporations, the Internal Revenue Bureau first held in the administration of this tax that all corporations which continued their organization, which had officers and were not dissolved, were subject to this tax; but along came cases, particularly under the corporation excise tax of 1909, cases in the Supreme Court to the effect that the tax of 1909 was not assessed with respect to corporations which were not doing business. In other words, corporations which were purely holding companies were not subject to the excise tax of 1909, and the same rule applied to this capital stock tax, which is, and necessarily so, an excise tax imposed with respect to doing business. So that the Internal Revenue Bureau was obliged to change its ruling and we have this result, which amounts to an incidental inequality, that a holding corporation which does nothing else but hold the stocks and securities of other corporations is not subject to this capital stock tax and can not be made subject to it, but if that holding corporation, though most of its income is derived from the securities which it holds, incidentally does a little business on its own account, such as managing an office building or buying and selling real estate, this capital stock tax applies and it is taxed on its capital stock, even that part of it which is simply represented by holding stocks and securities.

Mr. FREAR. You are giving the interpretation of the Treasury Department?

Mr. SATTERLEE. No, I am giving the interpretation of the Supreme Court.

Mr. GREEN. Do you remember the case that that was decided in?

Mr. SATTERLEE. I haven't the citation here. There were several of them. I can get them for you very easily.

Mr. FREAR. Just put that in your remarks. That will make it accessible.

Mr. SATTERLEE. Yes, I will do that.

The CHAIRMAN. Now, get to the holding company.

Mr. GREEN. I am not questioning the accuracy of your statement, but I just wanted the citation.

A VOICE. I may be able to give you that. The name of that case was *Flint v. Stone, Tracy & Co.*

Mr. SATTERLEE. That is one of them; yes.

The CHAIRMAN. Now, Mr. Satterlee, what would you do with corporations such as you mentioned, not a holding company such as you mentioned but the owner of property that was not productive and was not operating?

Mr. SATTERLEE. At the present time those holding companies, if they hold that property with the idea of eventually utilizing it or selling it, are subject to tax under this capital-stock tax on the total amount of the fair value of their capital stock. In case the basis were changed, in case this tax were repealed and simply the rate of the existing income tax were increased, those corporations would only be taxed to the extent that they actually realized income.

The CHAIRMAN. Then you would relieve them, of course, from that stock tax until they disposed of their property or had some income?

Mr. SATTERLEE. Yes, sir. In the case of holding companies—to take up a point that is involved there—this tax is particularly unequal also in the case of what in the income tax law are called affiliated corporations. As you know, under the act of 1917, without express authority in the law but by regulation, the Commissioner of Internal Revenue provided that corporations which were owned by each other or owned by the same interests should file consolidated returns, and that provision, which was initially a regulation, was enacted into law in the revenue act of 1918. So that so far as income and excess profits taxes are concerned corporations which form part of a group the stock of which is all owned, for example, by one parent corporation, are taxed as a single enterprise, but there is no such authority in the capital-stock tax act and the commissioner has ruled that there is no authority to do that by regulation. So that under the capital stock tax we have the situation that one corporation whose stock is all owned by another corporation, whose stock may in turn be owned by still a further corporation, the first corporation is taxed on the value of its capital stock, the second corporation, if it does any business, is taxed on the value of its capital stock, which includes the value of the first corporation's stock, and so on, sometimes in quite a chain of corporations. Now, that is not due to any particular advantage in a great many cases that corporations derive from splitting up their enterprises into separate corporations, but very largely in a great many instances because in order to do business in a certain State it is necessary really to incorporate in that State and to have a separate corporation for doing business there. So the result is that where there are these affiliated corporations which under the income tax law are taxed as a unit under the capital stock tax act each one is taxed individually and you have the effect of taxing on really the same property sometimes three and four times.

Mr. GARNER. But the capital stock tax, if I understand the theory of it, is a tax that is levied as a right to do business in a corporate name. Now the States have a capital stock tax for corporations; probably you have examined them; we have them in Texas.

Mr. SATTERLEE. Yes; they have them in all of the States.

Mr. GARNER. Now it is upon the theory that the Government charges you so much money for the privilege of incorporating and taking advantage of the fact that you are incorporated, that you are released from responsibility as an individual or partnership. Now if you have got a business that involves three corporations, just as you have described, I see no reason why the Government should not charge you for the privilege of having three corporations doing business in place of having one, if the theory of taxation is correct and applies to three just the same as it would to one.

Mr. SATTERLEE. Well, my answer to that is that, as you have said, the States do impose franchise taxes on corporations, and I have always been rather doubtful in my own mind whether the United States Government should properly, as a matter of fairness, impose the tax for the privilege of doing business as a corporation, when that privilege is primarily given by a State. But aside from the propriety of the theory of the tax itself, a tax of \$1 per \$1,000, with an exemption of \$5,000 only is a pretty heavy tax in addition to the State tax.

Mr. FREAR. But there has not been much complaint on that particular of which you speak. These corporations have been going right along.

Mr. SATTERLEE. But there has been complaint time and time again on the part of corporations who were laboring under the mistaken idea that they could file consolidated returns for the purpose of the capital stock tax.

Mr. FREAR. But that was simply due to confusion on their part.

Mr. SATTERLEE. No; but we told them they could not do it, and they complained that it was an injustice and protested that they should be allowed to do so, and there have been a great many applications to that effect.

Mr. FREAR. That is from your acquaintance in the department or outside?

Mr. SATTERLEE. From my knowledge gained while I was in the bureau, and also on the outside since I have acted as counsel for certain corporations.

Mr. FREAR. The department officials would be aware of those complaints when they came before us?

Mr. SATTERLEE. Yes. As I have stated in the printed statement which I want to file, I am not here to complain in respect of the way in which the tax has been administered by the officials of the bureau, because I appreciate the difficulties they have been under and I have the highest respect, particularly for the present heads of the capital stock tax division, who I think have done the very best that anybody could have done in the circumstances; but what I object to is the inherent inequity, difficulty and uncertainty of the tax. Now if there is any compelling reason why a tax involving this theory should be imposed upon corporations, then this tax should stand. This part about the injustice to affiliated corporations is only one count in the indictment that I have against the whole tax.

Mr. FREAR. Couldn't you make that complaint about the personal income tax of practically every man paying taxes being in the State and part of his income derived from corporations that pay taxes locally and pay taxes here to the Government as well? That is, the indictment might hold true of many lines of taxation. Wouldn't that be equally true?

Mr. SATTERLEE. Not so much so, because the corporation is a creature of a particular State and its income—it doesn't derive its income from the fiat of the State, from any grant of the State, but you derive it from the fact that you are a citizen both of the State and of the United States.

Mr. FREAR. Which permits the corporation to act as a corporate body.

Mr. SATTERLEE. Well, the United States does not permit the corporation to act as a corporate body.

Mr. FREAR. But the State does and the State taxes them individually in the State.

Mr. SATTERLEE. Assuming, as I said, that the theory is proper, it simply comes down to the question whether the theory is worth while; whether the fairer method is not, first, to tax on the basis of income, on the basis of ability to pay; and second, whether the expense of maintaining a separate division of the Internal Revenue Bureau and the expense and annoyance to taxpayers are worth upholding this particular theory against the theory of taxing on the basis of income.

Mr. FREAR. What expenditure does the Government make for maintaining this particular branch of work?

Mr. SATTERLEE. I do not know.

Mr. HADLEY. I understand that there is an independent division in the bureau, which does nothing else but look after this particular tax?

Mr. SATTERLEE. Yes, sir.

Mr. HADLEY. Whereas, if it were derived under the general head of "income," there is a division which takes care of that, and the expense would necessarily accrue, anyway, under the income-tax division.

Mr. SATTERLEE. It would not increase the labor of collecting the income tax; it would simply mean adding 1 per cent to the computation. That is all. It would save the Government a lot of money and would save the taxpayers a lot of money in the labor that they now have in making up these tax returns.

Mr. FREAR. From your experience would you say it would cost the Government 1 per cent, \$900,000, to carry on this work?

Mr. SATTERLEE. One per cent?

Mr. FREAR. One per cent of the \$93,000,000.

Mr. SATTERLEE. Well, as I recall it, the Internal Revenue Bureau altogether spends something like \$20,000,000 a year in collecting taxes.

Mr. FREAR. I am speaking of this particular branch.

Mr. SATTERLEE. On this particular branch I should doubt if it cost as much as \$900,000, and I should say, in what I hope would be rather an intelligent guess, that it would be somewhere in the neighborhood of \$500,000.

Mr. FREAR. One-half of one per cent—about.

Mr. TILSON. Do you believe that could be eliminated?

Mr. SATTERLEE. It undoubtedly could if this tax were abolished and that substitution made that I propose. This entire division could be abolished without any trouble at all.

If it is not troubling you too much I would like to have you look at the copies of the form of capital stock tax return, which will show you better than anything I can say the difficulties of making up the return [presenting paper]. You see there are three schedules here based on net assets, on outside sales and on earnings, and these figures that are put in here are prepared in entirely different ways than the figures that are necessary for any other tax return. So it means not simply inserting here figures that the taxpayer has prepared for the purpose of income tax, for example, but means getting up an entirely different set of figures, which have very little relation with other figures that you use for tax purposes.

Mr. GREEN. That might be corrected, but it really seems to me that if corporations hold a large amount of property, even though it may not return any net income, they ought to pay something for the privilege of doing business and issuing stock in this way.

Mr. SATTERLEE. If they simply hold the property as an investment, without intending to deal in or with the property, then the Supreme Court has ruled that they are not subject to this capital stock tax.

Mr. GREEN. I was not referring to that kind of a case, but a case where they simply did not make any net income. But your argument has presented some difficulties that the committee was not aware of, and they will be glad to take those matters under consideration.

Mr. SATTERLEE. You see this schedule A in this capital stock tax return provides for first setting out the book assets, and the bureau in its recent rulings has taken what I think to be rather the arbitrary attitude that if this statement of book value as adjusted is higher than the other valuations, that will be the fair value of the capital stock. Well, all you gentlemen know the difficulty and the impossibility of determining really what the value of the net worth of a corporation is simply by looking at a book, at its balance, at its book figures. That can not be determined naturally without a very comprehensive examination of the corporation's property and all that sort of thing. So the result of this Exhibit "A," for example, is that a corporation which wants to go to the trouble of depreciating, of diminishing the value of its assets and using really its own judgment about it, which can scarcely be checked up by the bureau, is in better position than the corporation that is absolutely fair about it.

Mr. TILSON. Does the gentleman believe that this will simplify the tax returns to a great degree?

Mr. SATTERLEE. Yes, my point briefly is this: The present tax is very uncertain. No corporation can tell in advance what guess the bureau is going to make as to the value of its assets.

Mr. TILSON. We have heard much talk about simplifying the tax returns. I understand you believe this would be a step in that direction?

Mr. SATTERLEE. If I may say so, personally I am a crank on the subject of simplification of Federal taxes. I have always believed in that, and I believe this is the right step to take in the simplification of taxes and the one that is the least free from controversy,

because it does not by any chance shift the burden; all you have to do is to keep the burden where it is on the corporations, but as between the corporations it does adjust the burden more equally in accordance with the ability of the separate corporations to pay.

Mr. HAWLEY. Did you mean "less free" from controversy, or "most free"?

Mr. SATTERLEE. I mean most free from controversy; that it is a question about which there really can not be very much controversy.

Mr. GARNER. Suppose that the Department now—most corporations have already got their capital stock report in the Treasury Department; ought not that capital stock report to continue about the same from year to year, except as to new corporations?

Mr. SATTERLEE. No, they change very much from year to year.

Mr. GARNER. Now why is the change? Here is a corporation, we will say, organized for a million dollars, and it is taxed under this capital stock tax at \$9,000; what is there to change that?

Mr. SATTERLEE. Well, because—take Exhibit "A", for example; the balance sheet may change very materially on account of differences in inventories and additions to physical properties and depreciation of physical properties, and the capital stock tax division does not take results that are reached with reference to depreciation by the income-tax unit; it assumes the right to do that entirely of its own accord. And then so far as schedule B is concerned, the market value of the stock, it particularly has been noticeable lately, that stock that at the beginning of the year may be worth 140 may go down in value 50 per cent, and here is a point that is not provided for by the law and has been provided for by regulations—I think really beyond the authority of the law, but yet it has been acquiesced in because it saved trouble—and that is this: The tax is based on the fair value of the capital stock at the end of the preceding year, ending June 30; that is, the tax is imposed for the year beginning, we will say, July 1, 1921, on the basis of the fair value of the capital stock June 30, 1921, but inasmuch as comparatively few corporations have a fiscal year ending June 30, in practice the bureau has allowed corporations to base their fair value on the figures shown by their books for their fiscal year, which is usually, of course, the calendar year ending six months before. So the capital stock tax for the coming year will, in most cases, be based on the valuation existing December 31, 1920.

Mr. FREAR. What would be the effect of taking the par value, for instance, of the stock and fixing your basis of taxing on that? In the States quite frequently they issue, of course, their certificates for the corporation and they charge proportionate to the amount of capital stock. Now, what would be the effect of making that the basis, the par value, and basing the rates on that?

Mr. SATTERLEE. That, of course, would immensely simplify it.

Mr. FREAR. Would it create any great injustice?

Mr. SATTERLEE. If the tax were at as high a rate as it is now, I think it would create considerable injustice; if the tax were comparatively a nominal tax, as those State corporation taxes, it would on the one hand raise very little revenue; on the other hand it would be a very simple tax to administer. But it would mean filling out one additional return and having at least one force of officers check up those returns. It would be much more simple than the present tax.

Mr. HADLEY. Under your plan this three-page form that you have passed around as an exhibit would be eliminated altogether?

Mr. SATTERLEE. Yes, sir.

Mr. HADLEY. Do you know how many of these returns are made annually, on an average?

Mr. SATTERLEE. Well, every corporation in the country has to make them. I do not know how many corporations there are in the country.

Mr. HADLEY. How many men in the division in the bureau work upon this?

Mr. SATTERLEE. I don't know that, because I have not been in the bureau since this new law was enacted which reduced the exemption, and, as I say, that immensely increased the number of corporate taxpayers.

Mr. HADLEY. Is there any considerable number of employees?

Mr. SATTERLEE. Yes; quite a considerable number. They have rather large and extensive offices over in the Interior Building.

Mr. HADLEY. Does that division articulate with the field force that is gathering information upon which to base conclusions in the bureau?

Mr. SATTERLEE. Yes, sir.

Mr. HADLEY. And do you know the extent of that field force?

Mr. SATTERLEE. No, sir; I do not. I can find that out though, probably.

Mr. HADLEY. That would be interesting if the record would show it, because it is an element involved here in determining this question.

The CHAIRMAN. Mr. Satterlee has consumed nearly 40 minutes, gentlemen, and we have several other witnesses to be heard this afternoon.

Mr. GREEN. Of course his plan would simplify the collection of the tax, because a tax on income is fundamentally the fairest tax that might be levied. The plan would involve a certain amount of shifting of the taxes that are now being paid.

Mr. SATTERLEE. Between the corporations, yes.

Mr. FREAR. One more question. This tax has been in existence for some time and the Treasury Department is acquainted with it and have their field force organized; they have made their determinations and those have been supported by decisions of the Supreme Court. Doesn't that branch of the Treasury function well at the present time?

Mr. SATTERLEE. I should say not. In fact, I think there is more dissatisfaction every year with it.

Mr. FREAR. More questions are being raised constantly?

Mr. SATTERLEE. Yes. And now, as you know, it takes quite a while for the bureau to get around to a great many cases. For instance, in my private practice I have cases of these capital-stock tax returns that are now coming up for 1917, and lots of them for 1918 and 1919, that are just beginning to come up and to be annoying in the determination of the taxes.

Mr. TILSON. Mr. Satterlee, isn't it a fact that this is one of the most unsatisfactory provisions of the whole income-tax law?

Mr. SATTERLEE. Yes, sir.

Mr. TILSON. Is there not as much complaint over this one thing, this capital stock feature, as there is over any other?

Mr. SATTERLEE. There is much more complaint with respect to this in comparison with the size of the tax. Of course, we hear more about the excess-profits tax and the higher rates of surtax, because those involve larger sums, but in comparison to the yield there is more complaint about this particular tax, and personally I should a good deal rather try to work out an administration system for excess profits and surtax than for this.

Mr. TILSON. I have heard more complaint personally over this capital-stock principle of the tax than over all the others combined.

Mr. SATTERLEE. I think it is undoubtedly the source of more complaint than anything else.

I have here a printed statement—is it customary to leave a hundred copies, say, of a thing of this kind?

The CHAIRMAN. Leave whatever you wish to, and the clerk will distribute them.

Mr. HAWLEY. Would you like to put that into the record?

Mr. SATTERLEE. Yes, sir.

Mr. HAWLEY. I suggest that a copy of it be incorporated in the record.

Mr. SATTERLEE. I have said a good deal in here that I have not said orally, and what I have said orally does not altogether follow this. About half of this is a statement and the rest of it extracts from the statutes and regulations, and rulings with reference to the statutes and regulations.

BRIEF OF HUGH SATTERLEE, NEW YORK CITY—REPEAL THE CAPITAL STOCK TAX.

I beg leave to urge upon you the repeal of the capital stock tax as the most uncertain, the most unequal, and (in comparison with its yield) the most complicated of the existing Federal taxes.

It is proposed that the capital-stock tax on corporations, imposed by section 1000 of the revenue act of 1918, shall be abolished, and that if necessary to make up for the loss of revenue thereby caused the flat income-tax rate on corporations shall be increased by 1 per cent or such other percentage as shall be sufficient to raise the necessary amount. This proposal is made, not for the purpose of reducing taxes in aggregate amount, nor of shifting them from one group of taxpayers to another, but solely for the purpose of simplifying taxation and rectifying uncertainties and inequalities in the assessment of Federal taxes.

HISTORY OF CAPITAL-STOCK TAX.

Section 407 of the revenue act of 1916 imposed the first capital-stock tax on corporations, with respect to carrying on or doing business, at the rate of 50 cents for each \$1,000 of the fair value of the capital stock, with an exemption of \$99,000. Foreign corporations were taxed on the capital actually invested in the transaction of business in the United States.

Regulations No. 38 of the Internal Revenue Bureau, promulgated October 19, 1916, were drawn on the theory that the fair value of the capital stock for taxation purposes was the fair value per share multiplied by the number of shares outstanding. If the stock was listed on any exchange, its fair value was to be determined by the bid price. If the stock was not listed on any exchange, but sales had actually been made, the fair value was to be determined by the prices paid on such sales. In the event that the stock was neither listed nor sold during the preceding fiscal year, the fair value of the stock was to be estimated.

So many corporations were found to have stock that was neither listed nor subject to frequent sales that the Internal Revenue Bureau adopted various expedients to ascertain the fair value of the stock. One of these was to estimate the fair value on the basis of the earning capacity of the corporation, and it was ruled that if different classes of corporations earned certain specified rates their stock was worth par. Another device, in the case of corporations without earning capacity, was to estimate the fair value of their stock from the book value of their assets.

So much obvious injustice resulted from the existing patchwork of rulings, however, that in the summer of 1918 an effort was made to arrive at an equitable basis for the assessment of the capital-stock tax. At the time I was serving temporarily as a special attorney in the office of the Solicitor of Internal Revenue, and it so happened that I was asked to try my hand at drafting new regulations in cooperation with the administrative officers. The result was Regulations No. 38 (revised), promulgated August 9, 1918, which took the position that the fair value of capital stock was not necessarily the book value, nor the market value, nor even the earning value, although, perhaps, often more directly dependent upon the last.

My theory of the meaning of "capital stock" as used in the taxing statute, which I have never found reason to change, is well expressed in the following quotation from the opinion of the court in *Quincy Railroad Bridge Co. v. Adams County* (88 Ill., 615):

"'Capital stock' does not mean the identical lands, chattels, or other articles of property possessed by a corporation, nor shares of stock either separately or in the aggregate, but is intended to designate the property of the corporation subject to taxation, not in separate parcels, but as a homogeneous unit, partaking of the nature of personality, and subject to the burdens imposed upon it at the domicile of the owner."

As a practical safeguard against too much latitude on the part of the taxpayer, however, the regulations provided that the fair value estimated by capitalizing the net earnings on a percentage basis fixed by the officers must not be set at a sum less than the reconstructed book value or the market value, unless the corporation was materially affected by extraordinary conditions justifying a lower figure. This was not intended as a rigid rule, but rather to bring out an explanation of the facts in each case.

Section 1000 of the revenues act of 1918, superseding the earlier act, imposes a capital stock tax on corporations, with respect to carrying on or doing business, equivalent to \$1 for each \$1,000 of so much of the fair value of the capital stock for the preceding year ending June 30 as is in excess of \$5,000. Foreign corporations are taxed on the average amount of capital employed in the transaction of business in the United States.

Regulations 50 of the Internal Revenue Bureau, promulgated April 29, 1919, with the preparation of which I had a little to do, in the main adopted the principles (if they can be called such) laid down in Regulations No. 38 (revised) for the determination of the fair value of capital stock. Regulations 50 (revised) of June 21, 1920, however, cut entirely loose from the earliest conception of the nature of the capital-stock tax, saying that the fair average value of the capital stock for the purposes of the capital-stock tax must not be confused with the market value of the shares of stock where it may be necessary to determine such value under other provisions of the revenue laws. In practice the bureau has gone even further and has insisted that the basis of the tax was the amount of the net assets of the corporation. The only qualification to this working rule has been the imposition of a tax higher than the net assets would justify in cases where the basis of capitalized net earnings was more favorable to the Government.

Incidentally this attitude is taken in the face of the fact that Congress expressly retained the same basis for the tax as in the revenue act of 1916, the conference committee rejecting a Senate amendment (No. 488) changing the basis of the tax from the fair average value of the capital stock to the amount of the net assets shown on the books as of the close of the preceding income-tax year.

This brief sketch of the tax is intended to indicate some of its pitfalls and difficulties. Whether the proper basis of the tax be the aggregate value of the outstanding shares, as first conceived by the Internal Revenue Bureau, or the amount of the net assets, as now insisted by the bureau, or a concept of capital stock which is neither of these, although dependent upon both of them, makes little difference so far as its practical administration is concerned. In fact, to obtain a proper picture of the intricacies of the tax the various sets of regulations and the separate Treasury decisions should be examined. To facilitate such an examination, references to and extracts from the statutes and regulations will be attached hereto as an appendix. Regulations 50 (revised) of itself is highly edifying, to say the least.

Based on my desperate attempt while in the Internal Revenue Bureau to make the tax workable, and on my frequent observation since leaving the bureau of the injustice and inequalities of the tax, I made the following recommendations in an address ("Some suggestions for the simplification of Federal taxation") before the annual conference of the National Tax Association in Salt Lake City on September 8, 1920:

"My third suggestion is the abolition of the capital-stock tax. It is a substantial revenue producer, yielding about \$93,000,000 for 1920, but it is unworkable. No one

has yet been able to figure out a satisfactory method for determining from Washington the fair value of the capital stock of a corporation located outside the District of Columbia, and the recent history of the tax lends no encouragement to the hope that anyone ever will.

"The comparison of the three factors of book value of the assets, market value of the stock, and capitalization based on earnings, for which I was originally partly responsible, demands perhaps too high a degree of administrative judgment and discretion, but the present practice of arbitrarily assessing the tax on the basis of the book value, if that happens to be the highest, seems a perversion of the statute.

"The tax is impossible of equitable administration; it is accordingly a fruitful source of irritation on the part of corporate taxpayers; it naturally seems to them about the last straw, when added to the heavy income and profits taxes; and it necessitates the filling out and filing of an additional return on a basis quite different from that of any other tax return required from corporate taxpayers.

"In making these strictures on the tax I feel it only fair to add that I am not criticizing the heads of the capital-stock tax division, who have brought exceptional intelligence and devotion to their thankless task."

REASONS FOR REPEAL OF CAPITAL-STOCK TAX.

The fundamental reason for the proposal to repeal the capital-stock tax is that it is unworkable and erratic in its application, bears unequally on different taxpayers, and causes injustice and irritation far beyond the amount of tax involved. We believe that the vast majority of corporate taxpayers are perfectly willing to pay an amount of tax equal to that collected under the capital-stock tax, if the taxation can be laid in a more simple, certain, and equitable manner.

Section 1000, above referred to and quoted in full in the appendix, is the only specific legislation relating to this tax. The time of filing returns, the form of those returns, the time of payment of the tax, etc., have been fixed by general provisions of the Revised Statutes or by regulations of the Commissioner of Internal Revenue. The return is required to be filed prior to July 31 of each year and the tax is payable 10 days after assessment is made on the return.

The information called for in the return covers the facts existing during the fiscal year of the corporation last preceding July 1. The tax is paid in advance for the year beginning July 1. As the fiscal year of the great majority of corporations is the calendar year, the tax is therefore in most cases paid, for instance, for the year July 1, 1921, to June 30, 1922, in an amount determined by the facts existing during the calendar year 1920. This method has been prescribed to avoid the necessity of requiring corporations to keep an additional set of books, for the purpose of this tax only, on the basis of a fiscal year ending June 30. It is a wise provision, but it is wise only because it is the choice of two evils, for it carries with it the manifest inaccuracy of basing a tax on past history instead of on present conditions.

The unworkability of the capital stock tax arises principally from the manifest impossibility of ascertaining what is the fair average value of the capital stock of any corporation. The law provides no criterion, nor could any accurate or scientific criterion be prescribed. Consequently the taxing officials have had to do the best they could. They have laid down certain tests which, if followed rigidly, work great injustice, and, if not followed rigidly, leave in the taxing officials a wide discretion and range of judgment, without adequate information to guide them or definite principles which they can follow. Their estimate therefore amounts practically to a guess. They have, in the main, exercised good judgment and performed their duties satisfactorily. The failure of the tax is due entirely to the statute itself and to the inherent character of the tax and not to its administration.

The following are the features of the capital-stock tax which bring about this situation:

The taxing officials have prepared regulations and forms of returns under which every corporation is required to report three schedules of information. Under Schedule A the corporation reports its balance sheet at the close of the fiscal year nearest preceding June 30, which in the great majority of cases is the calendar year preceding. First the book balance sheet has to be stated. Then the corporation is required to state the balance sheet adjusted under a column entitled "Fair value." Under Schedule B the corporation reports the monthly average of the sales of stock of the corporation for the same fiscal year preceding. Under Schedule C the corporation reports its net income for the preceding five years. Under this Schedule C the taxable net income is first reported, then additions are made thereto and deductions therefrom, the average obtained, and that average income capitalized at a percentage not provided by regulations or law, but at a percentage reported by the taxpayer and later determined by the taxing officials. The rule of the Bureau of Internal Revenue is that, in the absence of

reasons to the contrary, the schedule which happens to be the highest of these three will be taken as representing the fair average value of the capital stock.

The opportunities for error in this method are manifest and manifold. In pointing them out we do not intend to criticize the taxing officials, because we are not able to suggest, nor do we believe that anyone is able to suggest, any method which would eliminate the possibility of these large and grave errors, and their existence is the result of the law itself and not of any lack of expertness or care or conscience on the part of the taxing officials. A few of these possibilities, nay certainties, of error, are as follows:

In the first place, the book balance sheets of corporations are manifestly not correct statements of the value of their capital stock. Some balance sheets show a higher and some a lower value than the real value. None probably show it accurately. To attempt to rectify this by a balance sheet made up under the title "Fair value" immediately throws the matter into the realm of conjecture. It is useless and unnecessary to attempt to tabulate here all the different problems which arise, but no person familiar with business affairs will hesitate a moment in deciding that it is impossible for any man, however wise, to go over the book balance sheet of a corporation and ascertain what the fair values of the properties are. To do this even approximately would require an intensive and exhaustive examination and appraisal of the properties of each corporation involved, which work would have to be repeated every year and which, in the case of large corporations, would take months each year to accomplish. The consequence is that the taxpayers are at a loss to know how to arrive at this fair value, and they make whatever statements or arguments seem to them relevant, while the taxing officials have to weigh those arguments and make their decisions without any guide or basis of principles whatever. Therefore, the dishonest taxpayer or the taxpayer who is best able to present his case pays the least taxes.

Schedule B, which states the monthly average of the selling price of stock, is a much more practical criterion in the cases of corporations whose stock is widely and actively traded in. At first glance this would seem to cover a large number of taxpayers, but the fact is the contrary. The greater number of corporations whose stock is dealt in actively on exchanges, or in sufficient quantities to furnish a good average selling price, are corporations which own subsidiaries. In the case of these subsidiaries there are, of course, no market quotations, and for such companies the taxing officials are thrown back on the other schedules of the return involving the opportunities for error mentioned in other parts of this statement. Consequently this schedule does not furnish a sufficient basis for assessing a fair average value of capital stock of the majority of the taxpayers who pay the tax.

Another feature of this Schedule B is that the average quotations are for the fiscal year preceding June 30 and the tax is paid in advance for the Federal fiscal year beginning July 1. In consequence, a corporation pays a tax to cover a government fiscal year based upon quotations of its stock over a period running from 18 months to 30 months prior to the termination of the period for which the tax is paid. The proper method for a taxpayer to accrue this Federal capital-stock tax is to distribute it over the year for which it is paid. The result of this is that a corporation may pay taxes to cover the month of June, 1921, in an amount based upon an appraisal of its capital stock as shown in part by sales of its stock made in January, 1919, two and one-half years before.

Schedule C requires a statement of the Federal taxable income for the preceding five years, with adjustments to bring it down or up to an income which is designated in the return as "adjusted income," and then a capitalizing of the average of these five years' earnings on a percentage basis. The percentage of error in this calculation is, of course, enormous. Income which is a fair criterion for capitalizing a company on the basis of its earnings differs very decidedly in character, both from the Federal taxable income and from the book income. For instance, a sale of a portion of the capital assets of a corporation at a profit or at a loss is income-tax income, and may or may not be book income. Or, to cite another example, a parent corporation may receive a large special dividend from one of its subsidiaries representing the earnings of several years. This is not taxable income, but no one can say whether it is "adjusted income." To capitalize a company on the basis of income of this or similar character would, however, accomplish a valuation far different from the correct one. The taxpayer and the taxing officials, therefore, must exercise a range of judgment amounting to conjecture in determining what is "adjusted" income and what kind of income is properly capitalizable and what is not. Moreover, the result obtained by this capitalizing process depends upon the percentage at which those earnings are capitalized, to an extent which affects the valuation up to huge percentages. The taxing officials have no adequate facilities for ascertaining, nor could they or anybody else in any reasonable time, with the exercise of the very best judgment, ascertain at what rate the earnings of a particular taxpayer or class of taxpayers

should be capitalized. Whether, for instance, the earnings of a taxpayer are capitalized at 10 per cent or at 20 per cent is a question which involves the doubling of the tax.

After these three schedules are ascertained the taxing officials have before them three distinct figures which have no relation to each other and which may easily differ by 100 per cent. The regulations and the return do not provide for or allow an average of these three figures, and rightly so. The reason for this ruling is evidently the realization of the fact that one or other of these schedules may be perfectly meaningless. The officials, therefore, reserve to themselves the right to take whichever schedule seems best to them, and in order to safeguard the interests of the Government they have adopted the rule that the highest value shall be taken, unless reasons to the contrary are shown. As to what these reasons should be there is again no guide and they must again exercise judgment amounting to conjecture.

It can be seen at a glance that the sum total of the opportunities for error in all of these considerations is so great that the vast majority of corporations must be paying taxes which differ from accurate and just taxes by percentages easily running over 100 per cent. All the uncertainties which have been objected to in excess profits taxation or any other form of taxation are insignificant compared with these uncertainties. While the capital stock tax is not nearly so large in amount as the income and excess profits taxes, and for that reason, and incidentally also for the reason that it affects the despised corporation taxpayer only, there has not been the same public clamor against it as there has been against the excess profits tax and higher surtaxes, yet the amount is sufficiently large to make it of very considerable importance and to render the injustice and inequality of it a great source of dissatisfaction and irritation. And because it is a truism that uncertain and unequal tax laws make dishonest taxpayers, this tax must of necessity be a strong incentive to the falsifying of returns.

INJUSTICE TO AFFILIATED CORPORATIONS.

Another feature of the capital-stock tax which works inequalities is one that affects all corporations owning the entire capital stock of subsidiaries. In the case of almost all large corporations, by reason of the laws of some States to the effect that no foreign corporation can own real property, or for many other reasons of business and convenience, the business enterprise is conducted through the use of subsidiaries, which carry on different branches of the business, but are really part of one business enterprise.

The Commissioner of Internal Revenue has believed that under the capital-stock tax law he had no power to require or allow consolidated returns, as he did under the income tax law in 1917 by regulation, and as was done under the 1918 income tax by statutory provision, and he has definitely ruled that such consolidated returns are not allowable. Under the capital-stock tax, therefore, each corporation is taxed on the value of its own capital stock, without regard to whether or not this stock is held entirely by another corporation, or whether a large part of its properties consists of the stock of subsidiary corporations. The result is that the same property is in effect taxed many times.

In fixing the capital-stock tax of a subsidiary corporation its property is assigned a value and in effect a tax paid thereon. If the stock of that corporation is entirely held by another subsidiary of the parent corporation, it in turn is taxed again on such stock as a valuable security. Under the intricacies of business growth in very many cases the stock of this subsidiary is in turn owned by another subsidiary, and there may be four or five stockholdings by various subsidiaries before we come to the ownership of the parent corporation. Each of these subsidiaries is now taxed a separate tax upon the value of its capital stock, all of which values have as a component part the value of the property owned by the first subsidiary. It is therefore a case, not only of double taxation, but of treble, quintuple, or greater taxation.

It is a matter of very grave injustice and results in taxing certain business concerns two or three times the amount of the tax of other business concerns of the same real value, based simply upon the accident of the manner of growth of the corporation. The answer is sometimes made to this argument that if corporations choose to have their corporate organization in this form they must pay taxes accordingly. This is not a fair answer. The conditions causing this intercompany stock ownership arose prior to the capital stock tax law, and for many and varied legitimate business reasons, not related to the ability of the corporation to stand tax nor its earning power nor its profits, but solely from the character of its business, the location of its properties, etc. It is therefore a case of taxation by accident, and necessarily results in injustice. As can be readily seen, the inequality in this feature is not a small matter.

This particular feature of the law could be remedied by a statutory amendment providing for the filing of consolidated returns in all cases where a corporation owns 95 or more per cent of the stock of a subsidiary, but according to the opinion of the com-

missioner and many rulings of the solicitor of internal revenue it can not be removed by regulation or ruling of the commissioner. As it stands, therefore, it is an inevitable injustice of the capital-stock tax. If it were the only one, we should advocate merely an amendment to the law requiring consolidated returns in such cases. Such amendment, however, would affect solely this particular feature in the law, and while it would give great relief and tend largely to allay the irritation of the tax, it would not accomplish the full remediable result.

Moreover, as the tax is imposed only with respect to doing business, a holding corporation which merely holds the stock of other corporations is entirely free from the tax, while a holding corporation which chiefly holds the stock of other corporations, but does a little bit of business on its own account, is subject to tax on the entire value of its capital stock. This is an iniquitous result, but it is inherent in the nature of the tax.

SUBSTITUTE FOR CAPITAL STOCK TAX.

In the face of the situation above sketched, it seems to require but little consideration to reach the conclusion that the capital stock tax should be immediately repealed in its entirety. No presentation of the case against any other of the Federal tax laws shows anything like this amount of uncertainty and inequality, with the possible exception of the undistributed income tax of the 1917 law, which fell of its own weight because it was impossible of even any kind of enforcement.

The sole consideration remaining would seem to be whether the Government can stand the loss in revenue or whether it should find some satisfactory substitute. We assume that this question will be answered in the latter alternative, and that a substitute amount of taxation must be found.

It is probably not an overstatement to say that an increase in any other kind of Federal taxes now in existence would be preferable to this tax. However, the substitution of an increased rate of the flat income tax on corporations seems to be the best and readiest substitute. It falls on exactly the same group of taxpayers and can be fixed at whatever amount the Secretary of the Treasury believes will produce the requisite revenue for the Government. It also has the advantage that the taxpayer who can best afford will pay the tax. A corporation which is making money can afford to pay an income tax amounting to even higher percentages if it is necessary for Government revenue purposes, but if the corporation is operating at a loss it can ill afford to pay a tax amounting to one-tenth of 1 per cent of the value of its total capital stock.

Such a substitute has also the very great advantage that it will cut down the work and expense of the Government and the taxpayers by removing the necessity of making up, filing, and reviewing an entirely separate set of returns prepared on a basis entirely different from any other tax return, and will allow the collection of the same amount of tax without increasing at all the work on the income tax returns. The only necessary change in the law will be a flat increase of the corporate income tax rate.

Assuming that corporations which make a real income of 10 per cent upon their property are on the average properly capitalizable at par, it may be calculated that the equivalent of this capital stock tax would be an increase of not more than 1 per cent of the income tax rate. We say "not more" than 1 per cent because the income tax income is of course higher than the real income and therefore an additional 1 per cent on taxable income would be greater than the capital stock tax of one-tenth of 1 per cent on a capitalization on a 10 per cent basis on real income.

Secretary of the Treasury Houston in his annual report for the fiscal year ended June 30, 1920, estimated the amount of additional taxes for 1921 which would be raised by an increase of 6 per cent in the corporation income tax rate at \$465,000,000. One per cent would therefore be \$77,500,000. The present Secretary of the Treasury in his letter of April 30, 1921, to the chairman of the Committee on Ways and Means estimated that an increase of 5 per cent plus the repeal of the \$2,000 exemption would net \$400,000,000. If we assume that the repeal of the \$2,000 exemption would net about \$53,000,000 (the Secretary's estimate), we have \$347,000,000 for the 5 per cent. This makes 1 per cent equivalent to about \$70,000,000.

The estimate for the capital stock tax payable this year, 1921, was made by the Secretary of the Treasury at \$95,000,000. This estimate was made before the recent cataclysm of business depression occurred and was made by assuming that the capital stock tax collected for the fiscal year ended June 30, 1920, of about \$93,000,000 would be repeated, without any allowance for the depression in business conditions which apparently was taken into consideration in estimating the income taxes. In view of recent conditions, it is now apparent that this will be an overestimate.

It seems, therefore, that an additional corporate income tax of 1 per cent will equal the amount of the capital stock tax. But the amount of the necessary increase in rate is, of course, a matter for determination by Treasury experts or other qualified persons. What is urged in this statement is that the capital stock tax be entirely

abolished and the percentage of the straight corporation income tax be increased, if deemed necessary, by an amount necessary to provide the revenue otherwise lost.

CONCLUSION.

The suggestion made in this statement is one which can not expediently be urged by the corporations themselves. A campaign by corporations to abolish the Federal capital stock tax and to substitute an increased corporate income tax would undoubtedly be misconstrued. The popular appraisal of the situation would be that an attempt was being made by the corporations to reduce their taxation and throw the burden on the individual taxpayer. Although the vast majority of corporations would welcome the change, the fact that it has not already been strongly urged by them is accounted for by this last-mentioned consideration. It is necessary that this reform shall be brought about by the action of Congress on the unprejudiced, impartial report of your committee.

Briefly to sum up, the capital-stock tax should be abolished because it is uncertain, being entirely based on long-range estimates of value; because it is unequal, applying radically different criteria of value to different corporations and resulting in multiple taxation of affiliated corporations; because it is complicated, requiring the preparation and consideration of several sets of figures different from those required in any other tax return; and, above all, because it is an unnecessary and superfluous tax, the revenue from which can more certainly, more equally, and more simply be derived from an increase in the rate of the income tax on the same class of taxpayers, the corporations.

[Extracts from statutes and regulations.]

REVENUE ACT OF 1916, SECTION 407.

"Every corporation, joint-stock company, or association, now or hereafter organized in the United States for profit and having a capital stock represented by shares, and every insurance company now or hereafter organized under the laws of the United States, or any State or Territory of the United States, shall pay annually a special excise tax with respect to the carrying on or doing business by such corporation, joint-stock company, or association, or insurance company, equivalent to 50 cents for each \$1,000 of the fair value of its capital stock, and in estimating the value of capital stock the surplus and undivided profits shall be included: *Provided*, That in the case of insurance companies such deposits and reserve funds as they are required by law or contract to maintain or hold for the protection of or payment to or apportionment among policyholders shall not be included. The amount of such annual tax shall in all cases be computed on the basis of the fair average value of the capital stock for the preceding year: *Provided*, That for the purpose of this tax an exemption of \$99,000 shall be allowed from the capital stock as defined in this paragraph of each corporation, joint-stock company, or association, or insurance company: *Provided further*, That a corporation, joint-stock company, or association, or insurance company, actually paying the tax imposed by section 301 of Title III of this act shall be entitled to a credit as against the tax imposed by this paragraph equal to the amount of the tax so actually paid: *And provided further*, That this tax shall not be imposed upon any corporation, joint-stock company, or association, or insurance company, not engaged in business during the preceding taxable year, or which is exempt under the provisions of section 11, Title I, of this act."

REGULATIONS 38, ARTICLE 6.

"ART. 6. SEC. 1.—*Companies or associations organized in the United States for profit.*—The tax on companies or associations having a capital stock represented by shares is imposed on the fair average value for the preceding year and not the face or par value of the capital stock. The fair value of the capital stock shall be ascertained as follows:

"Stock listed on exchange.

"(a) *Case I.*—If the stock is listed on any exchange its fair value will be determined by adding the quoted highest bid price for the stock on the last business day of each month during the preceding fiscal year (or if no bid price was quoted on the last day then the latest day in the month on which a bid was quoted), and dividing by 12, the result being the average bid price per share for that year.

"Stock not listed but of which sales have been made.

"(b) *Case II.*—If the stock is not listed on any exchange, but sales thereof have been actually made, and the price paid for the stock is known to the officer making the return, or can be discovered by him, the average price at which sales were made during

the preceding fiscal year shall be the determining factor in ascertaining the fair value per share.

"(In the foregoing two cases the actual fair value of the stock is ascertainable from the facts without the necessity of making an estimate.)"

"Cases in which fair average value of stock shall be estimated."

"(c) *Case III.*—If Case I and Case II can not be applied, viz, the stock is not listed on any exchange, and no actual sales have been made during the preceding fiscal year, or if the price at which sales have been made is not known to the officer making the return the fair average value of the capital stock shall be estimated, and the surplus and undivided profits for the preceding fiscal year will be taken into consideration as required by the statute, as well as the nature of the business, its earning capacity, and average dividends paid, or profits earned during the preceding five years.

"Fair value of total capital stock outstanding."

"(d) The fair value per share ascertained or estimated as above multiplied by the number of shares outstanding will give the fair value of the stock for taxation purposes."

T. D. 2417, DECEMBER 16, 1916.

"*Item 6.—Cases I and II.*—Through lack of space no provision was made on the draft of Form 707 for computing the average fair value under item 6 of more than one kind of stock. There appears to be ample space, however, on the printed form under Cases I and II of item 6 to list the highest prices quoted and highest sale prices of both common and preferred stock. It is, therefore, suggested that the average fair value of each kind of stock be listed in this way, which, multiplied by the total number of shares of each kind of stock outstanding on June 30, 1916 (item 7), and added together would give the fair value of the total capital stock, both common and preferred, for the preceding fiscal year ended June 30, 1916, under item 8.

"*Case III.*—'Surplus, if any,' and 'undivided profits, if any,' should be the average surplus and average undivided profits as shown by the books of the corporation for the preceding fiscal year, July 1, 1915, to June 30, 1916. Inasmuch as the fair value of the stock ascertained under this case is only an estimate, this office has permitted corporations whose fiscal years ended on December 31, 1915, or any other date, to use the figures shown by the books on that date.

"'Estimated earning capacity' of a corporation should be its prospective earnings for the next following year, and should be expressed in terms of percentage of the par value of the capital stock."

T. D. 2423, DECEMBER 30, 1916.

"(h) Where a holding company owns all the stock of several subsidiary corporations which is not listed on any exchange or which has not been sold in the fiscal year, it has been held that the fair value of the stock of such subsidiary companies may be estimated from the market value of the total capital stock of the holding company (the parent corporation) by apportionment of the fair value of the total capital stock of the holding corporation among the subsidiary companies. This does not, of course, relieve the holding company from its liability to the special excise tax, the average fair value of the stock of which can be computed under Case I or II."

T. D. 2426, DECEMBER 29, 1916.

"SIR: Receipt is acknowledged of your letter of the 14th instant, quoting a communication from the ——— National Bank, stating that the stock of that bank and the ——— Trust Co., two separate corporations, each having 20,000 shares of stock, are issued together in such a way that there is no separate market value for either class of stock. It appears that each share of stock of the ——— National Bank, which has a par value of \$100 per share, automatically carries with it one share of stock of the ——— Trust Co., of a par value of \$50, as evidenced by a printed indorsement on each certificate of stock of the ——— National Bank.

"In view of the fact that the combined stocks of these two banks have a definite market value for the fiscal year ended June 30, 1916, of \$250.58, this office approves of the suggestion regarding the apportionment of this market value between the stocks of the two corporations on the basis of the capital stock, surplus, and undivided profits of each for that period, as outlined below:"

T. D. 2503, JUNE 25, 1917.

"(6) If the stock is not listed on an exchange and no sales have been made to the knowledge of the officers signing the return, the corporation should set forth under Case III the amount of net profits earned during the preceding five years, as shown by the returns of net income for that period, together with the average number of shares outstanding each year, and compute the percentage of profits per share earned each year. The average percentage of profits over the 5-year period indicate the earning capacity. The fair value of the stock may then be estimated from the earning capacity of the corporation. It has been found upon examination of the returns of net income of a large number of different classes of corporations listed on an exchange that they earn approximately the following rates in order to make their stock worth par:

Banking:	Per cent.
States west of Mississippi River.....	8
States east of Mississippi River.....	6
Mercantile.....	10
Mining.....	10
Industrial.....	10
Oil-producing companies.....	15
Oil-refining companies.....	10
Public utilities:	
(1) Railroads.....	8
(2) Light and power companies.....	8
(3) Electric railways.....	8

"(7) Corporations that have no regular earnings, such as companies organized for the purpose of developing and selling timberland, mining property, and other real property, and corporations that have earned no profits in the past five years or have only been engaged in business one or two years, can not very well estimate the value of the stock from their earning capacity. They are permitted, therefore, to file a detailed statement, attached to the back of the return, showing their assets and liabilities outstanding on June 30, 1917, or at the end of their last fiscal year, and may estimate the fair value of the stock from the book value."

REGULATIONS NO. 38 (REVISED), ARTICLE 19

"The fair value of capital stock, the statutory basis of the stock, is not necessarily the book value, or the market value, or even the earning value, although it is often more directly dependent upon the last. It can best be estimated by officers of the corporation having special knowledge of its affairs and general knowledge of the line of business in which it is engaged. Provision is accordingly made in Exhibit C of Form 707 for the determination of the fair value of the capital stock by capitalizing the net earnings of the corporation on a percentage basis fixed by its officers as fairly representing the conditions obtaining in the trade and in the locality. But such fair value must not be set at a sum less than the reconstructed book value shown by Exhibit A or the market value shown by Exhibit B, unless the corporation is materially affected by extraordinary conditions which justify a lower figure. The Commissioner of Internal Revenue will estimate the fair value of the capital stock in cases regarded as involving any understatement or undervaluation."

REVENUE ACT OF 1913, SECTION 1000.

"SEC. 1000. (a) That on and after July 1, 1913, in lieu of the tax imposed by the first subdivision of section 407 of the revenue act of 1913—

"(1) Every domestic corporation shall pay annually a special excise tax with respect to carrying on or doing business equivalent to \$1 for each \$1,000 of so much of the fair average value of its capital stock for the preceding year ended June 30 as is in excess of \$5,000. In estimating the value of capital stock the surplus and undivided profits shall be included.

"(2) Every foreign corporation shall pay annually a special excise tax with respect to carrying on or doing business in the United States, equivalent to \$1 for each \$1,000 of the average amount of capital employed in the transaction of its business in the United States during the preceding year ending June 30.

"(b) In computing the tax in the case of insurance companies such deposits and reserve funds as they are required by law or contract to maintain or hold for the protection of or payment to or apportionment among policyholders shall not be included.

"(c) The taxes imposed by this section shall not apply in any year to any corporation which was not engaged in business (or in the case of a foreign corporation not

engaged in business in the United States) during the preceding year ending June 30, nor to any corporation enumerated in section 231. The taxes imposed by this section shall apply to mutual insurance companies, and in the case of every such domestic company the tax shall be equivalent to \$1 for each \$1,000 of the excess over \$5,000 of the sum of its surplus or contingent reserves maintained for the general use of the business and any reserves the net additions to which are included in net income under the provisions of Title II, as of the close of the preceding accounting period used by such company for purposes of making its income tax return: *Provided*, That in the case of a foreign mutual insurance company the tax shall be equivalent to \$1 for each \$1,000 of the same proportion of the sum of such surplus and reserves, which the reserve fund upon business transacted within the United States is of the total reserve upon all business transacted, as of the close of the preceding accounting period used by such company for purposes of making its income tax return.

"(d) Section 257 shall apply to all returns filed with the commissioner for purposes of the tax imposed by this section."

REGULATIONS 50 (REVISED), ARTICLE 14.

"The fair average value of the capital stock for the purpose of determining the amount of the capital-stock tax must not be confused with the market value of the shares of stock when it may be necessary to determine such value under other provisions of the revenue laws. The fair average value of the capital stock, the statutory basis of the tax, is not necessarily the book value or the value based on prices realized in current sales of shares of stock or even the value, determined by capitalization of earnings, although it may be more directly dependent upon the last. It should usually be capable of appraisal by officers of the corporation having a special knowledge of the affairs of the corporation and general knowledge of the line of business in which it is engaged. Provision is accordingly made in Exhibit C of Form 707 (revised) for the tentative determination of the fair value of the capital stock by capitalizing the net earnings of the corporation on a percentage basis fixed by its officers as fairly representing the conditions obtaining in the trade and in the locality. But such fair value, except in the case of insurance companies, must not be set at a sum less than the reconstructed book value shown by Exhibit A, unless the corporation is materially affected by extraordinary conditions which support a lower valuation. In any such case a full explanation must accompany the return. The commissioner will estimate the fair value of the capital stock in cases regarded as involving any understatement or undervaluation. For the method of computing the fair average value of capital stock in the case of insurance companies see articles 22 and 24."

See also regulations 50 of May 9, 1919, and Treasury decisions 2418, December 15, 1916; 2424, December 30, 1916; 2429, January 4, 1917; 2457, March 14, 1917; 2467, March 27, 1917; 2493, May 22, 1917; 2509, July 7, 1917; 2800, March 12, 1919; 2979, February 11, 1920; 3009, April 22, 1920.

SUPPLEMENTAL BRIEF OF HUGH SATTERLEE, NEW YORK CITY.

At the hearing before the Ways and Means Committee on Wednesday afternoon, July 27, 1921, at which I was permitted the privilege of advocating the repeal of the capital stock on corporations, several requests were made by members of the committee for information which I could not then furnish and which I now beg leave to supply.

NUMBER OF CORPORATIONS FILING RETURNS.

An officer of the Internal Revenue Bureau informs me that in the last fiscal year 325,000 corporations filed capital stock tax returns. The total tax collected being about \$93,000,000, this would show an average of \$285 per corporation. Consequently, the vast majority of taxpayers must be small corporations whose tax in each case is less than \$285. It is a fair deduction, and actual experience proves that many corporations spend more in making out their returns and preparing the material therefor than the amount of the tax itself. The abolition of the tax will therefore especially relieve thousands of small corporations from disproportionate expense and annoyance.

NUMBER OF CAPITAL-STOCK TAX DIVISION EMPLOYEES.

An officer of the Internal Revenue Bureau informs me that the number of employees of the bureau in Washington who devote their whole time and attention to the capital-stock tax is about 125. The capital-stock tax division has no separate field force.

EXPENSE OF COLLECTING TAX.

I am told that the annual pay roll of the capital-stock tax division employees in Washington is about \$200,000. Aside from this, of course, there should be taken into account the use of offices, expenses for stationery and other supplies, etc., and particularly salaries of employees of the various collectors' offices throughout the country who devote part of their time to capital-stock tax matters.

EXEMPTION OF HOLDING CORPORATIONS.

Among the decisions of the United States Supreme Court dealing with the constitutionality and nature of the corporation excise tax of 1909 are *Flint v. Stone Tracy Co.* (220 U. S., 107); *Zonne v. Minneapolis Syndicate* (220 U. S., 187); and *Stratton's Independence v. Howbert* (231 U. S., 399). These cases uphold the excise tax of 1909 on the ground that it was not a direct tax on property, but an excise tax imposed on the privilege of doing business in a corporate capacity, and conclude that a mere holding corporation is not subject to the tax. These and other decisions are digested in Treasury Decision 2418, December 15, 1916 (cited in the appendix to my printed statement), which rightly recognizes that the principles laid down by the court apply equally to the capital-stock tax.

TOBACCO, CIGARS, AND CIGARETTES.

BRIEF OF J. F. FOWLER, PRESIDENT AMERICAN EXPORTERS AND IMPORTERS ASSOCIATION, NEW YORK CITY.

By the revenue act of 1918, in section 1002 of Title X, a special manufacturer's tax is imposed on tobacco, cigars, and cigarettes, in these terms:

"Sec. 1002. That on and after January 1, 1919, there shall be levied, collected, and paid annually, in lieu of the taxes imposed by section 408 of the Revenue Act of 1916, the following special taxes, the amount of such taxes to be computed on the basis of the sales for the preceding year ending June 30—

* * * * *

"Manufacturers of tobacco whose annual sales exceed 200,000 pounds shall each pay \$24, and at the rate of 16 cents per 1,000 pounds, or fraction thereof, in respect to the excess over 200,000 pounds;

* * * * *

"Manufacturers of cigars whose annual sales exceed 400,000 cigars shall each pay \$24, and at the rate of 10 cents per 1,000 cigars, or fraction thereof, in respect to the excess over 400,000 cigars;

"Manufacturers of cigarettes, including small cigars weighing not more than 3 pounds per 1,000 shall each pay at the rate of 6 cents for every 10,000 cigarettes, or fraction thereof.

"In arriving at the amount of special tax to be paid under this section, and in the levy and collection of such tax each person engaged in the manufacture of more than one of the classes of articles specified in this section shall be considered and deemed a manufacturer of each class separately."

In the absence of a statutory provision explicitly relating to this section, this special tax has been collected upon exported tobacco, cigars and cigarettes, the Commissioner of Internal Revenue holding that he has no authority in law to exempt exported articles from the taxes imposed by section 1002.

We respectfully request, therefore, on behalf of the members of the American Exporters and Importers Association and other exporters, who export quantities of these products burdened by this special tax, that, in the pending revenue act, if this special tax of section 1002 be retained, there be added at the end of the last paragraph of this section a provision exempting export trade in these terms:

"Provided, That the special taxes imposed by this section on sales of tobacco, cigars and cigarettes, shall not apply in respect to such articles sold for export and in due course so exported."

The adoption of this provision will give to the export trade in these articles the same exemption from this special tax that is granted with respect to the other special and regular taxes on these and other articles, in accordance with the established public policy of the United States that articles subject to excise tax shall not be taxed when exported.

This established public policy is recognized by the revenue act of 1918, as to other excise taxes provided for therein, by a special provision that such taxes shall not apply to articles sold or leased for export and in due course so exported. This provision (Sec. 1310 (c)) is in terms as follows:

"(c) Under such rules and regulations as the commissioner, with the approval of the Secretary, may prescribe, the taxes imposed under the provisions of Titles VI, VII, or IX shall not apply in respect to articles sold or leased for export and in due course so exported. Under such rules and regulations the amount of any internal-revenue tax erroneously or illegally collected in respect to exported articles may be refunded to the exporter of the article, instead of to the manufacturer, if the manufacturer waives any claim for the amount so to be refunded."

The provision which we now ask to have added to section 1002, as above stated, is exactly in accordance with the intent of Congress expressed in this paragraph (c) of section 1310 of the existing law, and is similarly worded; and the taxes of section 1002 to which it relates are excise taxes similar to those to which section 1310 (c) applies, and likewise imposed as special taxes because of war requirements.

The special tax imposed by section 1002 is in addition to the other internal-revenue taxes upon tobacco and tobacco products, from all of which other taxes such articles when exported are exempt by section 1310 (c) of the revenue act of 1918, quoted above, and also under the provisions of the act of August 4, 1886, chapter 896, section 1 (U. S. Comp. Stat., 1916, sec. 6194), which is in these terms:

"Manufactured tobacco, snuff, and cigars may be removed for export to a foreign country without payment of tax, under such regulations, and the making of such entries, and the filing of such bonds and bills of lading, as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe." (24 Stat., 218.)

Under the provisions of section 3387 of the Revised Statutes, as amended by the act of March 1, 1879, chapter 125, section 16, and by the act of October 1, 1890, chapter 1244, section 35 (U. S. Comp. Stats., 1916, sec. 6197), cigarettes and cheroots are included within the definition of cigars; and it has been held that they are therefore within the provisions of the statutes relating to cigars.

It is the specific purpose of section 6194 of the Compiled Statutes, quoted above, to make tobacco and tobacco products free from any internal-revenue tax when exported; and it is the intention of Congress that such products shall be exported without payment of tax.

Under the provisions of section 6194 of the Compiled Statutes, quoted above, the Commissioner of Internal Revenue would be justified in providing for the exportation of tobacco and tobacco products without payment of the special tax imposed by section 1002 of the revenue act of 1918. However, since the commissioner is in doubt as to his authority to so provide with respect to this tax, the difficulty will be corrected and our established public policy applied to this tax, by including at the end of section 1002 the provision suggested above.

The CHAIRMAN. I desire to submit in connection with the brief filed by Mr. Fowler a letter from the Secretary of Commerce bearing upon the same subject.

DEPARTMENT OF COMMERCE, *April 14, 1921.*

MY DEAR CONGRESSMAN: My attention has been called to the fact that the revenue act of January 1, 1919, imposing special taxes on manufacturers of tobacco and cigarettes, has been applied to business conducted in bonded manufacturing warehouses, class 6, and carried on exclusively for export. (The portion of the act in question is designated Title X, sec. 1002.)

I am informed that export business of this kind, conducted in bonded manufacturing warehouses, under the proper Government supervision, was exempt from the payment of internal revenue tax from 1897 to 1914, and consequently grew to fine proportions, especially in China and Latin America. The business, however, is conducted on a very narrow margin to meet the keen competition of other countries where special treatment is the established rule, and seems to be seriously disturbed by the collection of this special tax and by the prospect that it may be increased at any time.

It occurs to me that your committee may not have considered the possibility that the special tax might be applied to this bonded business and that you might care to consider the question in detail. It is my opinion that it would be unwise to encourage the manufacturers to move their factories to England or possibly China, and, if I may properly do so, I would like to suggest the insertion of a clause that would exempt this bonded export industry from the special tax.

HERBERT HOOVER, *Secretary of Commerce.*

STAMP TAXES.**STAMPS ON BANK CHECKS.**

HON. FRANK T. APPLEBY, A REPRESENTATIVE IN CONGRESS FROM NEW JERSEY.

The CHAIRMAN. We will hear Mr. Appleby.

Mr. APPLEBY. Mr. Chairman and gentlemen, I introduced three bills in the House at various times. I assume some of them have been discussed. The first one was to put a tax stamp of 2 cents on all checks. I understand Secretary Mellon rather approved of that, but the committee did not. I always believed it was a mistake to take the 2-cent stamp off of the check after it was once put on several years ago. In my judgment it would have turned in a great many million dollars annually and would not be felt by the people who could afford to pay it.

Mr. GREEN. Did you ever make a canvas of the Members of the House to see how many of them approved that plan?

Mr. APPLEBY. No, sir; I happen to be a bank director, and speak from experience.

Mr. GREEN. How much money would be raised by it?

Mr. APPLEBY. Between sixty and ninety million dollars a year.

Mr. TILSON. The Secretary of the Treasury reports \$45,000,000 at the outside.

Mr. APPLEBY. Take it at \$45,000,000 to \$50,000,000, it is quite a sum.

Mr. GARNER. Would you charge a man the same for a million-dollar check that you would for a \$1 check?

Mr. APPLEBY. Yes, sir; have it uniform.

Mr. CRISP. What effect do you think it would have upon bank deposits?

Mr. APPLEBY. I do not think it would have any.

Mr. GARNER. To put on a stamp to check money out of the bank.

Mr. APPLEBY. I do not think it would have any. We got used to it. We were used to it and the stamps were printed upon the checks, and the average man handling any amount of money when he got his 100-blank check book simply paid the extra amount at the bank, and my experience as a business man is that there was little objection to it.

Mr. CRISP. Was not this the practical effect of it, when we had the tax, that all the banks had a form of receipt, and a person wanting to draw out money would as a rule go there and sign one of the receipts and get the money and then go around and liquidate his little debts instead of using checks?

Mr. APPLEBY. I do not think that was generally done.

The CHAIRMAN. We could provide that any paper presented that withdrew the money from the banks should be regarded as a check.

Mr. APPLEBY. Yes, sir; something of that nature.

Mr. GREEN. Regardless of the merits of the matter, we had some experience in the House on that proposition, and, of course, the House is quite differently constituted now, but it was very apparent at that time that the majority of the House was opposed to it.

Mr. APPLEBY. Can you find any tax you are going to put on that people do not want?

Mr. GREEN. No.

Mr. APPLEBY. Take the average Member of Congress—he will find some objection to any tax you decide upon. It is a matter of judgment, locality, etc.

Mr. GREEN. That does not apply to this matter at all.

Mr. APPLEBY. I think it does. I am not going to take much time in the matter because you gentlemen have lots of witnesses to discuss other matters pertaining to this bill.

Mr. YOUNG. If that tax were adopted, do you think it would be better to levy it in the form of a small amount on each check, or a very small percentage upon the entire amount of the checks written each month, to be added by the bank at the end of each month and paid to the Government?

Mr. APPLEBY. No. A man buys revenue stamps and puts them upon his checks the same as merchants buy Government stamps to put on articles sold. The average man handling checks has his stamps on the checks in his check book. As I said before, they are engraved in in many cases, and the amount, 2 cents, in my judgment ought to be a uniform amount on each check, irrespective of its size. That is the same system we had before under a former revenue bill.

Mr. GARNER. What are the suggestions in your other bill?

Mr. APPLEBY. The second one is in the line of simplifying the present income-tax sheets for individual, corporation, or anyone else. I think the present income-tax blanks are most difficult; they are so complexly drawn that the average man can not successfully make out an income-tax sheet without getting the assistance of a banker or lawyer or an expert to get the correct amount due the Government.

Mr. GREEN. I agree with you there that much of the difficulty in our present income tax is caused by the fact that there is no proper plan that has been presented so far for these sheets, but it seems to me that it would really be very difficult to express that by law. It ought to be done by departmental regulation.

Mr. APPLEBY. But you will prescribe, as I understand, different rates and schedules. I have a suggestion; I do not know how good it is, it may not be worth much, of simplifying it, by fixing a rate upon a man's gross income, whatever he may receive. I have 1 per cent rate in my bill. A man owning real estate has an income of, say, \$30,000 a year; 1 per cent would be \$300, which is the starting point. You arrive at pretty nearly the same conclusion if you take the deductions that are allowed for depreciation, etc. The question arises there whether it would be 2, or 2½, or 3, and the question of deducting taxes for repairs, insurance, and all that.

The CHAIRMAN. If you tax him on the gross income, you might tax him when he made a loss instead of a profit.

Mr. APPLEBY. That might occur.

Mr. WATSON. Would you be in favor of having different forms for different classes of industry, the farmer to make a return on one form and the banker on another?

Mr. APPLEBY. Yes, sir; anything except the present way. I think the present way has caused people not to make a return, to take a chance; the more simple, the better results.

Mr. GREEN. I think there is very much ground for complaint in that respect and we ought to simplify these forms. But I have some doubt whether it could properly be done through the medium of a statute.

The CHAIRMAN. Is that all?

Mr. APPLEBY. No; the other bill is taking out excess profits taxes. I think that Mr. Longworth had such a bill up. I favor that; also eliminating the income tax above 52 per cent—\$100,000 a year. After you get above \$100,000 you fail to get the money.

The other bill is on the same line as Mr. Longworth's, taking out what is called the nuisance tax on soda water, theaters, and things of that sort. The third one is an innovation; that is, to get some money from automobiles by an automobile tax issued from Washington and sent to the various States allowing the States a percentage. My bill calls for 10 per cent to the States, 90 per cent to be paid into the Government fund, the tag to be good anywhere in the United States, doing away with this interstate regulation of automobiles and at the same time turning in quite a considerable sum of money to the Government.

Mr. GARNER. What are those nuisance taxes from, soda water and theaters? Tell us what nuisance taxes you want repealed?

Mr. APPLEBY. I am not one of the men who come here and ask you to repeal taxes and not put anything back. It is an utter impossibility to do so. It says here, strike out of section 630—I have not the text of that bill here—the taxes on beverages, strike out of section 211, Title II, the excess tax or surtax above 52 per cent; strike out paragraph 5 of section 900, excise taxes.

Mr. GARNER. You only suggest the repeal of the so-called nuisance tax on soda water?

Mr. APPLEBY. No; that whole section.

Mr. GARNER. That is all there is in that section. Would you keep all those other so-called nuisance taxes?

Mr. APPLEBY. Yes, sir.

APPENDIX.

STATEMENT OF SAMUEL RUSSELL ON SENATE BILL 2331, "TO LAY DUTIES, IMPOSTS, AND EXCISES."

The country demands simplified Federal tax laws. The Government itself demands a productive and dependable revenue system, which will afford simplicity of computation and facility of collection of the Federal taxes, and which shall be arranged upon such sound principles that, by the regulation of the rates, there will be an adequate response in the revenues required. The Federal budget, providing as it does for a balancing of revenues and expenditures, must, in order to be effective, have as its instruments on the revenue side, such dependable and responsive laws as will permit the making of an accurate forecast of the revenues for the succeeding fiscal year, and the accommodation of the authorized expenditures to these prospective revenues. It is the purpose of this bill to at least lay down the basis and outline the general structure of a simplified, comprehensive, and effectual revenue system. The bill, it is believed, will raise more revenue, and raise it with greater facility and greater equity of incidence, than any of the measures yet proposed. The bill has not been popularized by propaganda.

TITLE I.—INCOME TAX.

The income tax provided in Title I is a tax on the income of natural persons. The term "income tax" is not applied in the bill to the tax on the profits of corporations, but is restricted in application to proper personal income. The income tax is intended to supplant the individual income tax and the surtax imposed by existing law, and to merge these two into a single tax progressively graduated upon mathematical principles. The tax falls lightly upon the low incomes and falls with progressively accumulating incidence upon the higher incomes which are now subject to the so-called surtax. There is a personal exemption of \$1,000 for each taxable person with \$1,000 additional for the wife and \$200 for each minor child of the taxpayer. There is no exemption of the personal income derived from corporate dividends, as is the case with the present normal income tax. The tax is computed upon a simple formula which takes 2 mills in the dollar of the taxable income as a base and prescribes that the square of this sum shall be the income tax in such case. The highest rate amounts to 50 per cent, which is the rate for an income of \$125,000. Incomes in excess of \$125,000 are taxed at 50 per cent. This is a reduction from the highest ranges of the present surtax. The method of computation is illustrated by the following examples:

Taxable income.	Tax.	Per cent.	Taxable income.	Tax.	Per cent.
\$2,500 (2×2.5).....	\$25	1	\$100,000 (2×100).....	\$40,000	40
\$10,000 (2×10).....	400	4	\$125,000 (2×125).....	62,500	50

The surtax on \$100,000 under the existing law is 52 per cent, to which is to be added the normal tax of 8 per cent. Surtaxes as high as 64 per cent plus 8 per cent normal are imposed by existing law. The highest rate imposed by the bill is 50 per cent, which is believed to be the highest rate which should be imposed. There is some reduction in the effectual rate on lower incomes, but this is believed to be amply justified by the fact that the consumption taxes comprised in the tariff, the excise, and sales taxes, as well as the duty on theater tickets and passenger fares, fall directly upon these lower incomes.

TITLE II.—BUSINESS PROFITS DUTY.

The bill lays a straight duty of 10 per cent upon the annual profits of all business employing capital stock for profit conducted by corporations, joint-stock companies, associations, partnerships, sole traders, or other proprietors. The duty on the profits of business is the exercise of the power vested in Congress by the original Constitution to lay duties and does not depend in any way upon the income tax amendment. The business profits duty comprehends the present corporation income tax and supplants the same by a more extensive duty applied to the profits of all business, whether or not in corporate form. Another important change from the existing law is that moneys available for the payment of interest on bonds or funded debts are put in the category of profits for the purpose of imposing the duty, as are also moneys undistributed or reserved for the funds of the business. This provision alone will simplify administration and greatly augment the revenues. It will add more than \$250,000,000 to the yield of the present corporation income tax. There is no sound reason why money distributed to bondholders should be exempt, while money distributed to shareholders should be taxed, as these moneys are both in the proper category of profits. Another change is that only moneys actually expended for the repair of wear and tear and the replacement of obsolete, unusable, or defunct equipment are deducted from taxable profits. Depreciation and other funds pay the tax in the year which they are earned and originally reserved. This avoids all controversy as to the proper amount of such funds to be exempted from taxation.

The duty on taxable profits in excess of \$10,000,000 annually is graduated, so that the eleventh million of such profits pays 11 per cent; the twelfth million 12 per cent; the thirteenth million 13 per cent; the fourteenth million 14 per cent; the fifteenth million 15 per cent; the sixteenth million 16 per cent; the seventeenth million 17 per cent; the eighteenth million 18 per cent; the nineteenth million 19 per cent; the twentieth million 20 per cent. Profits in excess of \$20,000,000 annually take the 20 per cent rate. A monopolistic combination having annual profits in excess of \$20,000,000 will thus be required to pay 20 per cent on its profits above the \$20,000,000 mark; whereas a business having profits of \$10,000,000 or less annually will pay but 10 per cent. The ultimate rate on monopolistic trusts, pools, combinations, associations, conferences, and companies which concentrate, divide, or distribute profits will be double the rate of duty on the profits of normal competitive business. This provision is intended to formulate a means for the effectual disintegration of trusts and monopolies.

The graduations, however, are not to be applied to the business of transportation, banking, or insurance, as it is believed that the public interest is served by the extension, unification, and integration of railroads, banks, and insurance companies, which the graduations of the business-profits duty are intended to thwart and prevent.

EXCESS PROFITS.

The excess-profits duty is to be computed upon that part of the profits which exceeds the normal profits as indicated by the application to the annual outlay or operating charges of a normal earnings ratio which is to be determined for each class of business by the Secretary of the Treasury from the tax returns on file for the years 1910, 1911, 1912, 1913, and 1914. The normal earnings ratio is the ratio of annual earnings to annual expenditures or outlay, and has no relation whatever to the capital or capital stock of the business. This avoids all question of the amount of capital as a factor in ascertaining excess profits. It is this question of the capital in the business which has made the present excess-profits tax utterly unworkable as well as productive of gross inequity in taxation and insurmountable difficulty of administration. The expenditures of the business for operations are made up entirely of ascertained contractual items as are also the gross revenues of the business. The difference between these constitutes profits. The reference of profits or earnings to expenditures gives the earnings ratio. The normal earnings ratio is to be fixed at the average for each distinct line of business for five years of the prewar period. The ratio can not be arbitrarily fixed; 20 per cent might be the normal for the steel trade, 30 per cent for other lines or classes of business, and inasmuch as there are variations in the average normal earnings of different lines of business due in part to the differences in the relative amount of fixed capital required and to other incidents and causes peculiar to different trades, the matter should be investigated before the ratio is determined. The fixed capital required in any definite line or class of business is relatively equal for equal units of capacity or production. It would, therefore, be equitable as between taxpayers conducting the same general class of business, to fix an average normal ratio of earnings to expenditures for such business, the excess of earnings above the normal to be taxed as excess profits.

It is easy to inflate capital or capital stock. It is not easy to inflate operating charges. It costs money to do so. Imprudent expenditures mean inevitable losses. The inflation of expenditures therefore is not practiced and would not be practiced even to evade Federal profits taxes. The normal earnings ratio ought therefore to be referred to expenditures and ought not to be referred to gross revenues, because by the mere process of price inflation and profiteering, which of course swell revenue, the normal profits would be augmented and the excess profits reduced. The normal earnings ratio is therefore properly referred to expenditures. It is current expenditures to meet operating charges, which are really laid out by business on the risk of a return. The fixed capital of a business is not expended upon the risk of a return. It is the outlay which comes back or returns in the revenues of the business, and bring back the profits.

The Secretary of the Treasury is authorized by the bill to ascertain the normal earnings ratio for each class or line of business. The facts to be considered are at his command. The duty on excess profits ascertained by this method is to be computed at 30 per cent. The rate of course is a matter of congressional discretion. If Congress desires to retain the excess-profits tax in any form, it is believed that this method affords the only practical, dependable, and just means of ascertaining taxable excess profits and of computing the tax.

To apply this principle of computing excess profits, for exemplification, to the United States Steel Corporation, the entry of "total earnings" is compared to the entry of "operating charges," as shown in the condensed general profit-and-loss account in the annual reports of the Steel Corporation. In all cases the item of taxes is transposed from operating charges to earnings, as the Federal tax on profits is computed upon profits which of course include Federal profits taxes. This is the only transposition made in these two entries as taken from the official reports. The ratio of earnings to operation charges for the 10 years from 1910 to 1919, inclusive, computed upon this basis, is as follows:

	Per cent.		Per cent.
1910.....	29	1915.....	27
1911.....	21	1916.....	44
1912.....	20	1917.....	51
1913.....	25	1918.....	41
1914.....	21	1919.....	21

The normal earnings ratio for the prewar period, for the five years, 1910 to 1914 inclusive, fixed at the annual average is 23.2 per cent. Excess profits for the war years 1915, 1916, 1917, and 1918 are clearly indicated by the increase in the earnings ratio. The amount of excess earnings for each year may be ascertained by a simple application of the normal earnings ratio to the operating charges for such year to ascertain the normal profits, the excess of profits or earnings over this amount being taxable excess profits.

In addition to the high rate of earnings to operating charges during the war, the Steel Corporation reserved and excepted from total earnings, as the "amount of actual cost or market value in excess of normal prices of inventory stocks, on hand at the close of year," the following amounts which are not included within the entry of total earnings for such years:

1916.....	\$15,624,794.09
1917.....	29,748,302.39
1918.....	20,297,000.00
1919.....	38,710,396.41
1920.....	5,000,000.00
Total.....	109,380,492.89

For the following years the Steel Corporation retired out of current earnings, so-called extraordinary war capital, as follows:

1917.....	\$29,785,000.00
1918.....	40,000,000.00
1919.....	38,297,853.00
1920.....	27,000,000.00
Total.....	135,092,853.00

These extraordinary deductions from earnings in the profit-and-loss account of the Steel Corporation, for the war years reached a total of \$244,473,345.89. It is probable that a large portion at least of these deductions come properly within the category of taxable earnings, in which case the ratio of earnings to operating charges as indicated above for the war years would be materially increased.

The foregoing observations will indicate the simple method of computing taxable-excess profits, in the case of a typical corporation such as the United States Steel Corporation. Both the published reports of the corporation and the returns in the Treasury afford all the data required for such a computation. The method proposed is certainly an improvement upon the impossible intricate and incomprehensible provisions of the present revenue law which have confessedly broken down in the administration.

TITLE III.—IMPOSTS.

The bill prescribes under the title of imposts, which is the term used in the Constitution, the duties which are to be laid upon imports from foreign countries into the United States.

The bill lays a uniform ad valorem duty of 30 per cent intended to apply to all manufactured articles imported. The various schedules are abolished, thus simplifying the tariff both for administration and for the convenience and understanding of importers and the public generally. This uniform ad valorem rate is imposed upon all articles which do not come within the designation of food, fuel, and raw materials, which are comprehended within the free list of 15 special classifications. Of course, if for any reason special ad valorem duties in excess of 30 per cent are desired for a few articles, these duties may be specified. The bill specifies double duty of 60 per cent on manufactures of silk, on jewelry, and on precious stones. To complete the plan there is a specific-duty list in which may be prescribed such specific duties on food, fuel, or raw materials as may come in competition with the products of the United States, or upon which Congress may desire to impose protective duties. Protective duties may, of course, be imposed in addition to ad valorem duties, upon articles within the ad valorem classification.

The specific-duty list affords every facility to make any special adjustments required in the duty to be imposed upon any article either for protection or any other purpose. The specific duties suggested in the bill are not intended to be definitive. These will permit any augmentation of the general advalorem rate or qualification of the free classification which may be desired. The arrangement of the tariff into the advalorem classification, the free classification, and the specific-duty classification, would place the tariff upon a rational, simplified, and permanent basis and would otherwise make it more responsive to the revenue needs of the Government. The fact that the tariff only raises less than a tithe of our present Federal revenue, has reduced it to a minor factor in Federal fiscal policy and makes it all the more important that the imports be placed upon a simplified, rational, and permanent basis.

Alexander Hamilton, Secretary of the Treasury, in his report on manufactures, 1789, argued that duties from 15 to 30 per cent on

the cost of foreign articles at the manufactory were adequate to protect and to assure the prosperity of the manufactures of the United States. Hamilton's average was 22½ per cent, which included in addition to the tariff, the expense of transportation and insurance of the goods from the foreign countries of production to the United States. Robert J. Walker, Secretary of the Treasury, in his report on the tariff, 1845, argued that a duty of 20 per cent ad valorem would yield the largest revenue and that a proper revenue tariff would have rates which would average 20 per cent. The fact is, therefore, that Hamilton, the protagonist of protection, and Walker, the great advocate of a revenue tariff, are in substantial agreement as to the rates which should be imposed. The rate for the ad valorem duties provided in the bill is 30 per cent which is a fair compromise and composition of the matter either from a protectionist or from a revenue standpoint. The requirement of the times is for a fiscal tariff which shall compose the competitive and protective elements. It is only in this manner that the tariff may really be rationalized and stabilized as an integral part of the revenue system of the Government.

A permanent handicap of 30 per cent import duties ad valorem plus ocean freight, insurance, brokerage, exchange, and marketing charges against outside manufactured goods in the home market is all that American enterprise may reasonably ask to assure a fair place and price for home manufactured goods in the home market. No sound policy is to be served by artificially maintaining American price levels more than 3 per cent above general world levels.

TITLE V.—EXCISES.

The bill collects, under the title of excises, the taxes to be laid upon the sale of articles for consumption within the United States. Excises are imposed upon carbonated and cereal beverages, mineral water, cigars, cigarettes, plug and chewing tobacco, snuff, and other manufactures of tobacco. An excise of 1 cent a gallon is imposed upon gasoline. An excise of one-half cent a pound upon the consumption of domestic sugar might also be considered for inclusion in this title, and the list, of course, should be extended to include other articles of wide general use or consumption or which promise to produce a considerable revenue. The excises are specific. There might be an ad valorem excise upon cigars because of the great variation in their value or the prices at which they are sold. An arrangement of this kind would be a simple matter of amendment. It is the intention to bring together under one title all of the excises to be imposed by Congress, both for the facility of administration and for the information of taxpayers and the public. The existing miscellaneous excises and sales taxes should therefore be brought under this title.

TITLE V.—DUTY ON THEATER TICKETS.

The bill retains under this title the duty of 10 per cent on tickets of admission to theaters and places of public amusement conducted for profit, thus exempting casual entertainments, such as parties and dances, and also entertainments for the benefit of religious, educational, or charitable purposes.

TITLE VI.—DUTY ON PASSENGER FARES.

The bill under this title retains the tax on passenger tickets, but reduces the same to 1 mill per mile. Tickets are required to have marked upon them the number of miles called for and the amount of tax paid. Street car systems within any city or tributary to any city and not transporting passengers upon a mileage basis are exempt from the tax.

It may be proper at this point to say that the excises presently imposed on fountain drinks, ice cream, automobiles, pianos, tennis rackets, chewing gum, cameras, candy, clothing, soap, carpets, etc., as well as the duties imposed upon insurance policies, capital-stock transfers, brokers, theaters, riding academies, liquor dealers, tobacco manufacturers, and the stamp duties on bonds, indentures, certificates of indebtedness, bills of exchange, agreements of sale, drafts, checks, conveyances, warehouse receipts, powers of attorney, parcel-post packages, telegrams, and also the tax on the transportation of freight, are abandoned, foregone, and repealed. This has been done in the view that all impediments to business or restrictions upon the facility of trade and exchange act directly to retard settlements, clearings, and profits, and therefore to reduce the profits and incomes available for taxation.

TITLE VII.—DUTY ON DISTRIBUTIONS.

The bill reforms the present estate tax and lays a duty on distributions of money and personalty of the estates of deceased persons, testate or intestate, within the United States. The duty is not laid upon the amount of the estate, but is laid upon the amount of the legacies, bequests, or distributions received by any one person. The duty is graduated according to the amount received by the heir, legatee, devisee, or distributee, as the case may be. Estates and interests in lands, tenements, and hereditaments are not included within the operation of the distributions duty. The present estate tax has operated very unreasonably and inequitably as against the inheritance of real property and in many cases has compelled a sale of the inheritance of heirs in order to meet the tax imposed by the Federal Government. Lands, of course, are static within the States. They are subject to heavy State taxes and also to inheritance duties, and they should therefore be exempt from Federal taxation of this character. Personal property and moneys, however, produced by business and derived from all parts of the country and usually removed from the communities where produced to the larger cities of the country, are properly subject to a Federal duty for the benefit of the whole country. The bill makes liberal exemption in favor of widows and of heirs and distributees who are children or direct descendants of the intestate or the testator.

There has been some discussion of the propriety of moneys raised by the Federal Government upon inheritances being allocated to the States for the support of the common schools, but this feature has not been incorporated in the bill. Congress in the beginning made requisition on the States for Federal funds. Now that Congress has absorbed 80 per cent of the tax revenues of the country, it is quite in order for Congress to apportion funds to the States to sustain the

great primary duties and residuary political powers retained by the States. The States of the Union really own the Federal Government, and there can be no valid objection to their using the Federal agency for the collection and apportionment of public funds. An annual apportionment of Federal funds to the States of the Union, to be expended in conformity with State law for the maintenance of the common schools, would contribute to the release of a large amount of proper State funds, which could be applied by the States to the objects and policies now sought to be served by the so-called fifty-fifty appropriations from Congress. The released State funds, of course, would be expended free from any Federal interference. This apportionment would also tend to liberate the farms, homes, and lands of the people from the onerous, burdensome, and confiscatory taxes which are now imposed upon them.

THE SINGLE TAX.

Not only are land taxes in the States outrageously high and confiscatory, a condition which is interfering with the improvement of lands and the development of the country, but there are some irresponsible agitators who would yet add to the burdens of taxation presently imposed upon the lands of the country. A witness who appeared before the Senate Finance Committee in May of this year, and who claimed to represent the committee of manufacturers and merchants on Federal taxation and the Farmers' Federal Tax League of America, advocated that at least \$1,000,000,000 of Federal revenues be raised from the taxation of lands. This witness stated that "land values only pay \$600,000,000 in taxation, and not one penny of this comparatively insignificant sum goes to the Federal Government." "Why," said the witness, "with billions of injurious taxes levied [sic] upon manufacturers, merchants, and business men generally, the owners of from fifty to sixty billion dollars' worth of vacant land and idle natural resources should escape without paying a cent of Federal taxation?"

This witness contended that the only logical method of raising Federal revenues is to exempt business profits from taxation and to tax "land values," which, "after all," he said, "were created by community use." This is the favorite phrase of the single-taxers, and it is only a phrase. It is high time that the propagation of this single-tax nonsense should be spiked. The theory of these sapient simpletons is that "the more the value of land is taxed the more land is used, and consequently the better it is for business; whereas the less the value of land is taxed the less the land is used, and consequently the worse it is for business." The single-taxers have repeated and ruminated this fallacy so much that they believe it to be true. The very reverse of this statement is true. The less land is taxed the more profitable is its use, and therefore the greater will be its use and the more extensive the improvements either for profit or for the wholesome sense of security and stability which comes alone from the ownership of land. If all the vacant land of the country were occupied by new buildings, no one but a single-taxer would contend that these buildings would pay interest on the cost of construction. There is now a great deal of wasted and obsolete capital in unoccupied buildings and other land improvements. The single-taxer imagines

that land taxes will add to the investment of capital in the improvement of land. Liberate land from taxes and land will absorb, for its permanent improvement, a very large proportion of the surplus and investment earnings of the people. The fact is that even now our absurdly high land taxes are having the precisely opposite effect from that which the single-taxers predict. Take taxes off land and rents will come down and the price of food will come down. It has been proposed that for the purpose of encouraging the reforestation of vacant lands that such lands should be exempt from taxation. This is a sensible plan. If the single-taxers' theory were true, the high taxes paid on waste lands, which usually exceed any possible rent to be derived from them, would long ago have caused their complete reforestation or their complete occupation by buildings and improvements. Of course, it need not be said that the men who advance these fanciful notions are neither merchants nor manufacturers nor farmers, but just emotional uplifters with no conception of the actual facts affecting land rents, or land values, or land taxes.

The legal title to land is never in abeyance. Lands must be held by some one. And it makes no difference in law or morals whether the free tenant is an heir or a purchaser. All this single-taxer talk about the evils of holding land and of the unearned increment is just piffle. There is no sense to it. The single-tax scheme is a scheme to make us all tenants of the State, just as bolshevism is a scheme to make us all slaves of the State. Single-taxism and socialism are of equal absurdity. There can be no improvement of the country or of the people under such schemes.

The single-taxers contend that "land values" create rents or revenues. This is a patent absurdity. It is rents that create values, not values that create rents. But the esteem of people for land, quite apart from rents or profits, is a large factor in its value. The assessed valuation of land in all the States for taxation was in the aggregate \$59,966,569,944 in 1919. This is the \$60,000,000,000 of land values in "vacant land and idle natural resources" brought to the attention of Congress by the professional single-taxers. The actual money rents derived from these lands is less than \$1,000,000,000, or only about 1½ per cent of the value attached to these lands for taxation. At full 5 per cent on sixty billions of valuations, the land rent would be \$3,000,000,000, or less than one-fifth of the taxable income of the country.

The actual money land rents of the country do not amount to enough to pay the land taxes in very many cases. There are no special profits in owning land to-day, except as to some business property in the great cities. A mortgage of half the value of land will frequently absorb for interest double the rents derived from the land. The fact is that land taxes are now too high the country over. Taxes on homes are merely taxes on the expense of living, and taxes on farms are merely taxes on the sweat and work of farmers. Rational land taxes ought not to exceed 10 per cent of the annual rents, actual or potential, of the land taxed. Even if a greater rate be imposed, it ought to be based on rents and not valuation. The present system of taxing lands on arbitrary capital valuation is utterly absurd and grossly inequitable. Contrary to the theories of the single-taxers, taxes on buildings and improvements should be imposed by cities which afford fire and police protection and such special services

as water, light, sewerage, street paving and cleaning for the benefit of the buildings and improvements within the city. Buildings, in all equity and fairness, ought to pay in taxes the cost of these special benefits and services. It is much easier to assess buildings with approximate or practical equality than to attempt to fix "values" for land.

The outstanding fact is that only about 5 per cent of the taxable income of the country returned to the Federal Treasury in the year 1918 for the income tax was derived from the rents and royalties of lands. These land rents amounted to only \$975,000,000, out of a total taxable income of \$17,745,000,000. The single taxers would impose the whole of the taxes of the country on 5 per cent of the taxable revenues of the country. The actual money rents of land returned as income in 1918 were, it appears, a great deal less than \$1,000,000,000 for the whole country. The single-taxers admit that these rents now pay more than \$600,000,000 of State and municipal taxes.

These rents pay in addition thereto Federal income taxes of 8 to 60 per cent, from which it may fairly be assumed that the \$975,000,000 of land rents are in the aggregate approximately absorbed at the present time in State, municipal, and Federal taxation. Upon these land rents of less than a billion dollars a year these cocksure single-taxers would add, in addition to the State taxes, \$1,000,000,000 more of Federal impositions, which, of course, being direct taxes upon land, could not be laid except by apportionment among the several States according to population, as prescribed by the Constitution. But single-taxers have no more concern for the Constitution than they have for the inexorable principles of economics. This single-tax scheme would merely mean the trebling of the land taxes presently imposed upon the people in the States, and would not only confiscate the aggregate land rents of the country, but would actually penalize the owning and holding of land, because Federal land taxes of 1,000 million dollars, added to State land taxes of \$600,000,000, added to the present income tax on land rents, would inevitably mean that the \$975,000,000 of annual land rents of the country would be absorbed twice over in Federal and State taxes, and that these so-called land taxes would have to be paid of the wages of labor or the profits of business, or both, as is presently the case in large measure with respect to State land taxes. This single-tax scheme is so absurd as to be unworthy of the attention of any man having the qualities of probity and rationality. The one thing that is needed to-day for the rehabilitation of the life and character of America is that the heavy hand of taxation shall be taken off the homes and farms and lands of the people. If there is to be a single tax, it ought to be a temperate tax upon trade, for taxes are paid in money and there is no money without trade.

TITLE VIII.—DUTY ON CREDITS.

As an alternative to the proposals for a general sales tax, the bill provides for a duty of 1 per cent upon all debts created by contract, accord, or judgment within the United States. The sales tax itself has an alluring sound, but the proposition will not bear scrutiny or investigation. The tax experts and economists have come to this

conclusion. The difficulty of definition of a taxable sale is not encountered with respect to the definition of debt, which is one of the certain things of the law. Cash transactions having no credit term are exempted from the duty, as also are all loans, deposits, and transfers of money or of money credits and payments of money in satisfaction of antecedent taxable debts. The bill, therefore, will not interfere in anywise in the circulation of money or the transfer of credits.

The bill requires all debts to be reduced to a memorandum subscribed by the debtor, or to certified copies of judgment in case where the memorandum is refused or can not be obtained. These memoranda need not contain words of promise but should rather state facts from which the law implies the debt. An ordinary statement for goods sold and delivered, or for services rendered, presented to the debtor upon which the debtor writes "accepted for \$—— payable (on a day certain)" would be sufficient, as would also be a memorandum in the form of a check with an order, not for payment, but for entry of credit for the holder to be charged against the subscribing debtor, or other acknowledgment of the debt subscribed by the debtor. Every credit now calls for book entries. It were much better to reduce credits to acknowledged bills. These memoranda, which we will call bills, are to be placed by the debtor in the hands of the creditor. Every transaction will be settled either in cash or by an acknowledged or accepted bill of this character. The bills are to be taken to depositaries appointed in every city for the collection of the credits duty which is to be paid by the debtor at the time of the payment of the debt or the redemption of the bill. Upon payment of the bill and the duty, the fact of the payment will be stamped upon the face of the bill, and the bill will be returned to the maker or subscribing debtor. The creditor himself will be allowed to present the bill, pay the duty, have the fact of the payment of the duty stamped upon the face of the bill, and then withdraw the same for collection by other means, including legal process.

Provision is made for the deposit of bills and their entry in a system of accounts for the purpose of clearing and collection, the bills being returned to the makers as against the deposit of other bills to the credit of the makers. The debtor will have a definite place both for the collection of his money and the payment of his bills, a place where he can put in his credits and take out his debts. The current deposit of the credits and debts of trade in one depositary has of itself great possibilities for the promotion of trade, which practice and experience will fully develop. It is believed that the services of clearing and collection will be worth more than the tax of 1 per cent imposed upon credits or debts. The conception that debts may only be paid by money or bank notes, which are to be passed from hand to hand, is an archaic notion which must be discarded. Credit and debt are the respective positive and negative parts of the same legal conception. They are but different phases of the same thing. These reciprocal credit and debt elements are merged when placed in the same system of accounts, and it is by the extension of facilities for settlement and clearing by accounting instead of by payment in coin, currency, or by the transfer of bank credit that the problem of currency, credits, and collections must be accommodated. It is a thing which is perfectly feasible and calls only for the application of well established

principles of banking, accounting, and clearing. There are now 20,520,177 accounts in the 8,157 national banks of the country and probably 20,000,000 more accounts in the State banks, to which may be added many millions of accounts carried by the mercantile community and by the people as between themselves. These accounts could all be centered in the Government depositories designated for the payment of the duty on credits. Under this system a credit could be expended without collecting it. Indeed, the sure and prompt way to collect a credit would be to expend it in the process of collection.

Expenditure, of course, might be either for consumption or for investment, or saving, at the will and election of the creditor. There is no one thing which so retards trade as the accumulation of unsettled and uncleared accounts. It is more important that trade move than that it move at fair prices. The freer the trade, however, the fairer the prices, and the more reasonable and stable are the price levels. Any impediment to trade reflects itself in higher prices. The keeping of the business of the country currently in balance, not only as between persons in the same community, but also as between communities, is the fundamental thing. All else in finance is ancillary or supplementary. Facilities for the current reduction of business to balance and for the clearing and collection of the primary current credits of business without having such credits held up for 30 days to 6 months for their conversion into secondary bank credits, will afford the greatest possible service to trade as well as stimulation to all the enterprises of business and industry. Business lags because present banking practice holds up rather than facilitates the settlement, clearing, and collection of the primary current credits of trade.

It is claimed by many that the circulation of money is being unduly curtailed. Gold bullion and coin to the amount of \$3,089,679,782; plus silver dollars, \$276,482,326; plus subsidiary silver and minor coins, \$271,078,297; plus legal tender notes, \$346,681,016; plus national bank notes, \$723,816,352; plus Federal reserve bank notes, \$175,014,400; plus Federal reserve notes, \$3,158,004,305 (May 1, 1921); plus aggregate bank deposits of \$40,656,300,000 (report Comptroller of Currency, 1920) give us an effective coin, currency, and credit circulation of \$48,697,236,478, which is an effective per capita circulation of about \$450 on May 1, 1921, as against \$56.31 officially reported as the circulation per capita. We have a potential circulation of \$32 for every dollar in the daily clearings of the country. The average balances in the New York Clearing House for last year were under 10 per cent of the clearings. The average aggregate daily domestic trade balance has never been ascertained. The "banking power" of the United States was reported by the Comptroller of the Currency for 1920 at \$50,981,900,000.

We thus have a fifty billion banking power doing business of a billion and a half a day and carrying balances which are but a fraction of the aggregate daily clearings. The banking power of the United States is equal to 83 per cent of the aggregate assessed valuation of all the lands of the country. The annual volume in cash and credit transactions must be more than 600 billions, which is 10 times the aggregate assessed value of all the lands of the country.

Primary self-liquidating trade bills will clear with the same facility as checks, orders, or drafts against book loans. The cost of han-

ding items in the clearings is only a fraction of a cent per item. The bank clearings of the country for 1920 were reported at \$462,920,250,000, which is more than a billion and a half dollars per business day. Many items are duplicated. It is probable that the primary trade transactions included in these clearings amount to \$1,000,000,000 per day, a duty of 1 per cent on which amount would yield \$10,000,000 of revenues daily, or upwards of \$3,000,000,000 per year, produced in a constant and relatively steady stream of revenue daily throughout the year to meet the current daily expenditures and disbursements from the Treasury. A deflation of prices will of course reduce the money index of the aggregate daily clearings without reducing the actual circulation of the commodities of goods and work, and will therefore affect the daily amount of the credit duty. This will also be somewhat greater or less if the assumption of a billion dollars a day of primary trade credits, two-thirds of the daily clearings, is not correct. It is confidently asserted that no other plan for the production of a large and constant volume of Federal revenue is comparable to that comprehended within the duty on credits and that the system itself has many elements of benefit to the commerce and business of the country, which can be afforded in no other way, and which in large measure will compensate the business of the country for the duty collected.

TITLE IX.—FISCAL PROVISIONS.

There are at present (1920) 8,157 national banks issuing and circulating 8,157 brands of national bank notes secured by the deposit of Government bonds with the Treasury. The Federal reserve banks also have the right to circulate bank notes upon the security of bonds deposited with the Treasury. The national bank note circulation amounts to \$723,816,352, to which should be added the Federal reserve bank circulation of \$175,014,400, bringing the bond-secured banknote circulation of the country on May 1, 1921, to \$898,830,752. The circulation of United States legal-tender notes upon this date was \$346,681,016 which gives a total of Government guaranteed and permanent currency of \$1,245,511,768, which in round numbers amounts to about \$10 per capita for the population of the United States. Against this there is the demand for spending or pocket money by 110,000,000 people; the demand of the banks, both national and State, for legal tender notes for reserves against aggregate deposit liabilities of \$40,656,300,000; and the annual demand of the Treasury for upward of \$4,000,000,000 of Federal taxes. Certainly it would be a perfectly safe proposition to convert this miscellaneous bank currency into legal tender notes of the United States and to retire the bonds which secure this bank note circulation, thus reducing the public debt in the amount of nearly a billion dollars. This would not mean any inflation of the currency but a mere conversion of form, without really increasing the liability of the United States. Much might be said in favor of the proposition that the Government should circulate sufficient paper with which to pay the annual taxes imposed by the Government. Certainly, a circulation of Government notes of \$1,245,511,768, as against \$4,000,000,000 or more of annual Federal taxes imposed on the country and which will be payable in this paper,

is not in any view an unsafe or an inexpedient proposition. The bill provides in terms that this be done.

The bill also provides that the deposits in postal savings banks shall be invested at the direction of the Secretary of the Treasury in securities of the United States. This will make available \$155,000,000 to contribute to the retirement of the floating indebtedness represented by Treasury certificates now outstanding. The bill also raises the rate of interest on postal savings deposits to 3.65 per cent per annum or 1 cent on \$100 per day, which will have the effect of greatly augmenting the postal savings deposits and increasing very materially the funds available in the Treasury to take care of the unfunded obligations of the Government.

BANK RATES.

The bill fixes the bank rate for money at 6 per cent for loans and at 7.3 per cent or 2 cents per hundred dollars per day for discounts and overdraft or account balances. The investment rate for money ought not to be fixed by law because investment is earned money, while bankers' money, on the other hand, is written money and is not earned. The rediscount rate for Federal reserve banks is fixed by the bill at 3.65 per cent or 1 cent per hundred dollars per day.

On the question of the proper rediscount rate for Federal reserve banks, the editor of the Journal of the American Banker's Association in a letter under date of June 30, 1916, said:

In view of the fact that you seem tempted to discuss matters pertaining to banking, I would like to call your attention to a subject that I have had in mind for some time but which I have been unwilling to assign to anyone heretofore. I do not want to write it myself. I write too much as it is. This subject involves the question of the rates of rediscount charged by the Federal reserve banks as compared to the rates which prevail with the commercial banks. Except for acceptances and preferred commercial paper of a very high class, the rates which the banks charge are higher than those charged by the reserve banks. The variation between these two rates marks what seems to me to be a very serious defect in the Federal reserve act as it is applied. Under no theory of scientific banking should the ordinary discount rate charged by commercial banks be higher than the rediscount rate. The rediscounting bank should always pay for the privilege, however slight the charge may be. The Bank of England's rate is invariably higher than what is called the street rate. The same rule applies in all European countries with central banks. It seems obvious that this peculiarity in the development of our own Federal reserve system is due, to some extent, to the failure of the law to reduce the fixed amounts of currency or to reduce them with sufficient rapidity. We apparently have more currency than we need and the banks have, therefore, not been put to the necessity of rediscounting in order to get currency. If you would be interested to study this question out, there may be some material information that I can send to you. I would be glad to know if the subject appeals to you.

On July 6, in answer to this letter of June 30, I made the following outline of my views on this question:

The question of the rate for rediscounts by the Federal reserve banks presents some interesting considerations. I do not know just how soon I could develop and formulate a conclusion on the subject. The London discount market is an international market. There is, of course, no international banking currency. London discounts of foreign bills are made fundamentally on a gold basis, in which current bank paper is not a factor. The Federal reserve discount market is a domestic market into which is brought a large volume of current banking and Government paper. The commercial banks are in this general market with their paper stocks. I am not prepared to estimate at the moment whether or not these differences reflect themselves by variation in the rate. The Bank of England fixes a public money rate and the London banker, or rather money broker, has to compete with the bank for dis-

counts, and hence has to offer more for bills than would be paid under the public bank rate. The Federal reserve banks, however, have rather been required to reduce rediscounts by making advantageous rates to the banks. Moreover, the Federal reserve banks were, as is assumed, established for the accommodation of the commercial banks, and therefore it is rather expected that the rediscount operation shall be profitable to the bank which offers and indorses paper for rediscount. If the Federal reserve rate were a public rate instead of a rate made exclusively for member banks, the commercial banks would be compelled to compete with the Federal reserve banks for discounts, in which case the commercial bank rates could not exceed the Federal rate and there would moreover be a strong tendency for it to be slightly under the Federal rates in order to get the business by the ordinary methods of competition. Of course, the member and Federal bank rates could be made uniform and equal, arbitrarily by legislation or by regulations authorized by Federal legislation. As I understand it, the Federal rate is now more or less composed by regulation. From my very cursory consideration of this question, it would seem that the fact that the Federal banks were established for the use and accommodation of the commercial banks and not for their own sake, has created an attitude toward them which rather demands that they serve the interest of the members, rather than their own interest in the matter of the discount rate. By operation of law they are the servants and not the competitors of the member commercial banks. The natural way to bring the rates to an approximate uniformity would be to open the Federal discount market to original paper in the hands of private holders. Such paper, of course, would not be indorsed by the member banks and would lack this important element of security. I am not just advised as to the conditions under which the rates are made in the central banking systems of France and Germany. This is a mere sketch of first impressions. The subject, of course, is capable of much elaboration and refinement.

My deliberate conclusion upon this question is that the rediscount rate for Federal reserve banks ought to be fixed by law at 3.65 per cent, or 1 cent on \$100 per day, and that there ought to be no manipulation whatever of the rate by the Federal Reserve Board for the purpose of controlling the volume of current mercantile bills.

Federal reserve notes in circulation on May 1, 1921, amounted to \$3,158,204,305. It is provided in the bill that hereafter Federal reserve notes shall not be issued or reissued in denominations of less than \$20, thus giving the Government notes the exclusive field for the supply of currency of the smaller denominations which are constant in circulation and are seldom presented for redemption. The Secretary of the Treasury is given the power, in his discretion, as a precautionary measure, to require the payment of Federal taxes in legal-tender notes, thus assuring their solvency and redemption in any eventuality. The Secretary of the Treasury is also given power to exchange notes in the Treasury for outstanding bonds of the United States, and also to issue bonds in denominations of not less than \$100 in exchange for notes of the United States in the event of a scarcity of notes in the Treasury. The purpose of this provision is to facilitate the conversion of bonds into notes and notes into bonds for the progressive reduction of the public debt.

TITLE X.—ADMINISTRATION SCHEDULE.

The last title of the bill contains the administrative schedule. The bill is to go into effect upon approval and is to relate back to January 1, 1921, for the imposition of the annual income tax and the business profits duty. Otherwise the existing revenue laws are in force until the approval of the new act and remain in force for the collection of the taxes accrued thereunder. The administrative features of the present law are continued in force until changed by the Secretary of the Treasury, who is also authorized to make regulations for the enforcement and administration of the act.

HEARINGS IN EXECUTIVE SESSION.

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Monday, August 1, 1921.

The committee met at 2 o'clock p. m., Hon. Joseph W. Fordney (chairman) presiding.

HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY, ACCOMPANIED BY MR. S. P. GILBERT, JR., ASSISTANT SECRETARY IN CHARGE OF FISCAL AFFAIRS; MR. T. S. ADAMS, AND MR. JOSEPH S. MCCOY, GOVERNMENT ACTUARY.

The CHAIRMAN. Mr. Secretary, as you know, we are preparing to proceed with a revision of the internal revenue law, and have requested you and the Commissioner of Internal Revenue to come before the committee and give us some idea of what in your opinion is necessary, in the matter of internal revenue, to meet the running expenses of the Government in the most economical manner we can figure out. We have received a statement from you, which has been typewritten.¹ Have all the members been given a copy of that statement?

Mr. GARNER. I have not been given a copy of it, Mr. Chairman.

The CHAIRMAN. I will ask the clerk to see that each member of the committee who has not already received it be given a copy of that statement.

Mr. GARNER. Mr. Chairman, may I make a suggestion in this connection while the Secretary is here?

The CHAIRMAN. Yes, Mr. Garner.

Mr. GARNER. Heretofore it has been customary when the Treasury Department sent a communication of a public nature to the Ways and Means Committee to let each member have a copy of it, and the question that you asked just a moment ago, if we had received a copy of this statement, brings out the point that we have not. I think it is a good custom to permit the entire membership of the committee to be informed of what the Treasury Department has to say to the Ways and Means Committee touching its obligations, and I would like to ask that either the Secretary of the Treasury, when he communicates with the chairman, send a copy to each member, or that the chairman of the committee send a copy to each member.

The CHAIRMAN. I asked yesterday, Mr. Garner, to have the statement copied and every member of the committee furnished with a copy of it.

Mr. GREEN. The chairman originally was the only one who had a copy of it.

The CHAIRMAN. If it did not get around, it was simply neglect in having it copied, because yesterday I gave the copy I had to the

¹ The statement appears as Table II on p. 449.

clerk to have it typewritten for each member of the committee. I have not treated any statement prepared by the Secretary in the slightest as confidential, Mr. Garner, and will not, and will see that every member gets a copy of it.

Mr. GARNER. Would it not be well just at this time to put in the record, for the information of the House, the letters that the Secretary has written you since the organization of the Congress. I believe he has sent you some letters which have been published in the Congressional Record, but it might be well for the benefit of the membership of the House in looking over these hearings to insert whatever communications you have had from the Secretary of the Treasury.

The CHAIRMAN. In the hearings?

Mr. GARNER. Yes; in these hearings, because they are the matters required when we are considering the bill—that is, whatever matters you have received from the Secretary of the Treasury since the organization of the Congress touching these subjects.

The CHAIRMAN. All right, sir; any matter of which I have a copy that is not already in the record, we will have printed in the hearing.

Now, Mr. Secretary, we will be pleased to have from you a statement in reference to the necessity for the raising of money, the amount necessary, and so on, and any other information you may care to submit.

Secretary MELLON. I suppose the communication just spoken of covers the amount that was estimated by the Treasury. I can go over the matter again because I have the memorandum here.

The CHAIRMAN. I presume every member of the committee now has a copy of the statement that you gave me the other day, and if any gentlemen of the committee wish to ask the Secretary any questions, we will be pleased, indeed, to have them do so. Mr. Blair, the Commissioner of Internal Revenue, is here, and will follow Mr. Mellon.

Mr. GREEN. Mr. Secretary, the question I was most particularly interested in was the amount which it would be necessary for us to raise in order to meet the expenses of the Government as could reasonably be anticipated. In your statement, contained in your letter which you sent to the chairman dated April 30, you state that the estimates for the fiscal year 1922 are subject to great uncertainty as to both receipts and expenditures.

Secretary MELLON. Yes.

Mr. GREEN. I can easily see why that is true, but at the same time we would like to arrive as near as possible at the amount which the Government is likely to expend, and for the purpose of getting at the matter we had Mr. Madden, the chairman of Appropriations Committee, before us this morning. Mr. Madden gave us his statement of the appropriations which have already been made for the current fiscal year, and also gave an estimate, in a very general way, as to what he thought might be necessary for next year in the way of appropriations, but he informed us that this did not cover the amounts which the Government would expend at all, as, indeed, we were aware, on account of the amount which went over from former appropriations.

Secretary MELLON. Yes.

Mr. GREEN. Now, can you give us any more definitely at this time the amount which you think the Government will expend during this fiscal year and the amount of revenue that will be raised—that is, any more definitely than stated in your letter of last April?

Secretary MELLON. The best estimate, from all we can gather, which, of course, can not be very definite, is that there should be a total of at least \$4,200,000,000 of revenue in the fiscal year 1922 from customs and internal revenue—

Mr. GARNER. Do you mean, Mr. Secretary, that that is the total amount of money necessary to run the Government for this fiscal year?

Secretary MELLON. Then there is the estimated revenue from all other sources, including salvage of materials, and so forth, which according to the best information now available will be about \$350,000,000, making a grand total of about \$4,550,000,000.

Mr. YOUNG. Does that include the receipts from the Post Office Department?

Secretary MELLON. No. Only the net deficit is taken into account.

Mr. LONGWORTH. At what amount do you put that?

Mr. GILBERT. \$70,000,000.

Mr. HAWLEY. Mr. Secretary, have you included in your figures the money to be received from the sale of materials accumulated during the war?

Secretary MELLON. The amount which it is expected will be received during this year is included.

Mr. HAWLEY. How much do you think will be earned for the Treasury by the sale of these materials during this year?

Mr. GILBERT. It is estimated that that amount for this year will only be about \$60,000,000. That figure is made up from estimates of the War Department and the Navy Department. It is quite uncertain and may be increased somewhat if salvage operations can be pursued more effectively.

Mr. HAWLEY. Mr. Chairman, I suggest that Mr. Madden, the chairman of the Appropriations Committee, be requested to ask any questions that may occur to him at any time.

The CHAIRMAN. Oh, yes; we will be pleased to have Mr. Madden make any suggestions.

Mr. TREADWAY. Mr. Chairman, would it not be advisable to let the Secretary read in his own way any prepared statement he may have before we begin to ask questions? Will we not get a more constructive statement in that way?

Secretary MELLON. I really do not have a prepared statement at this time. It is simply a memorandum of various amounts. The estimates and general recommendations have already been embodied in my letter of April 30 to the chairman.

Mr. TREADWAY. Then I would suggest that Mr. Mellon make his own statement as to whatever information he wishes to convey, in a general way, to the committee, before we interrupt him.

Secretary MELLON. As I said, that makes a total of about \$4,550,000,000. The necessary expenditures, including sinking fund, will certainly not be less than this total for the year, according to present prospects, and may be even larger; so that from all the information we can gather that is the amount of necessary revenue.

Mr. CAREW. What is the item of \$350,000,000 you spoke of?

Mr. OLDFIELD. Salvage.

Secretary MELLON. Miscellaneous sources of revenue. That includes the item of salvage, etc.

Mr. GARNER. If I understand correctly, the \$350,000,000 include general receipts not enumerated in the act of 1918, and do not include the post-office receipts or the customs receipts; is that correct?

Secretary MELLON. Yes.

The CHAIRMAN. From the sale of supplies.

Mr. GARNER. The \$350,000,000 are from miscellaneous receipts outside of the act of 1918—the post-office receipts and customs receipts.

Secretary MELLON. Yes; the items appear to be, for instance, sales of public lands, Federal reserve bank franchise tax, interest that may be received on foreign obligations, repayment of foreign obligations, sales of surplus war supplies, Panama Canal, and other miscellaneous items.

Mr. BACHARACH. But does include \$60,000,000 from salvage, as I understand.

Secretary MELLON. Yes.

Mr. LONGWORTH. Mr. Secretary, do I understand \$4,200,000,000 to be what you think ought to be raised by taxes?

Secretary MELLON. Yes, sir.

Mr. LONGWORTH. Both from the customs and internal revenue?

Secretary MELLON. It seems to be necessary to raise that amount to cover the estimated expenses, as reported to the Treasury to date.

Mr. LONGWORTH. And adding \$350,000,000 to that makes \$4,550,000,000, which represents, in your judgment, the actual expenses of the Government?

Secretary MELLON. Yes; it will take at least that amount seemingly to cover it. These are the estimates of the departments.

Mr. LONGWORTH. May I ask you, Mr. Secretary, what the total expenditures were this year?

Secretary MELLON. What do you mean by "this year"?

Mr. LONGWORTH. The fiscal year just closed.

Mr. GILBERT. \$5,115,000,000.

The CHAIRMAN. \$5,115,000,000?

Mr. GILBERT. Ordinary disbursements, plus about \$260,000,000 sinking fund, so that the total was about \$5,375,000,000, including the sinking fund.

Mr. HAWLEY. Mr. Secretary, do you recall what the miscellaneous receipts were, including salvage, for the fiscal year just closed?

Mr. GILBERT. The miscellaneous revenue for the year just closed amounted to \$707,000,000. As nearly as we can analyze it from the reports received by the Treasury Department, about \$260,000,000 of that amount was salvage. There is one condition that affects the receipts from salvage, namely, the fact that the receipts coming to the Shipping Board and to some extent to the War and Navy Departments are used again for other purposes and do not go into the Treasury as available receipts.

Mr. MADDEN. That will not be true this year.

Mr. GILBERT. I hope not.

Mr. MADDEN. Under the Jones Act the receipts from the sales of supplies by the Shipping Board go into the Treasury of the United States after the 1st of July of this year.

Mr. GILBERT. I have forgotten whether or not that was amended by one of the appropriation acts. I thought it had been.

Mr. MADDEN. That only applies as to \$55,000,000 from the sale of ships, and there are not any ships being sold.

Mr. GARNER. Mr. Secretary, how do you account for the fact that you had seven hundred and some odd million dollars of miscellaneous receipts and \$200,000,000 of that from salvage, and yet you anticipate miscellaneous receipts this year, including salvage, of only about \$350,000,000?

Mr. GILBERT. Well, last year there were some special repayments of foreign obligations which counts as miscellaneous receipts. They amounted to about \$100,000,000.

Mr. GARNER. Repayment of foreign debts?

Mr. GILBERT. Foreign obligations, yes.

Mr. GARNER. Do you not anticipate any repayments this year?

Mr. GILBERT. We anticipate this year a repayment of only about \$30,500,000. That is due to the fact that in the year just closed there were considerable repayments which were really by way of adjustment of accounts. In the present year the chief repayment will be on account of the Pittman Act obligations given by the British Government, which will amount to about \$30,500,000. That, with small estimated repayments from other sources, is all that has been taken into account for this year.

Mr. GARNER. You do not anticipate, Mr. Secretary, recovering anything from the foreign Governments this year on the foreign debts?

Secretary MELLON. Not any large amount for this year.

Mr. GARNER. And no interest?

Secretary MELLON. No large amount.

Mr. GILBERT. We estimate about \$25,000,000 of miscellaneous interest. We received \$10,000,000 to-day from the French Government on the \$400,000,000 of obligations received by the War Department, but we have included that in the estimate of miscellaneous interest.

Mr. GARNER. Is any effort being made to collect the interest from any of the foreign countries?

Secretary MELLON. Not immediately.

Mr. GARNER. Do you anticipate any effort being made during the fiscal year?

Secretary MELLON. I do not believe that during this fiscal year we will realize any substantial payments in excess of the estimates.

Mr. GARNER. Do you anticipate making an effort during the fiscal year to collect any interest from foreign countries?

Mr. GREEN. The payment of that interest was extended. When does that period of extension expire?

Secretary MELLON. I think in April and May of next year.

Mr. HAWLEY. The present administration has accepted the arrangements of the former administration, I understand, Mr. Secretary, for an extension of the foreign debt as to the payment of interest.

Secretary MELLON. Yes; in substance that is it. Over two years of the extension have already expired.

Mr. GARNER. And that time expires in April of next year?

Secretary MELLON. Yes.

Mr. GARNER. Do you anticipate making any effort to collect interest at the end of that period?

Secretary MELLON. Oh, yes, but how much——

Mr. GARNER (interposing). Do you not hope to collect some interest from April until July, during this fiscal year?

Secretary MELLON. I do not think so. That is regarded as part of the reconstruction period or the period in which the privilege of deferment of interest was to be allowed, so that we do not expect any collections during that time.

Mr. GARNER. But if I understand the present arrangements, the end of the period is in April of next year. From April to July, during the fiscal year, is no effort to be made to collect interest on our foreign debt?

Secretary MELLON. If the debt were funded, there would not be any payment of interest until the end of a six months' period, I imagine.

Mr. GARNER. The payment of some of the interest on some of our obligations, I believe, falls due on June 15?

Secretary MELLON. Yes. Possibly something may be realized, but I do not think you can take that into consideration now.

The CHAIRMAN. It is my recollection that the time for the payment of interest upon these foreign obligations was extended until May or June of 1922.

Secretary MELLON. Yes; that was substantially the understanding.

Mr. GARNER. April.

Mr. CRISP. Mr. Secretary, has this Government entered into an agreement with the foreign Governments extending the interest until next April or May?

Secretary MELLON. There was an understanding with the foreign Governments that in connection with the funding of their demand obligations they could extend the payment of interest for that period.

Mr. TREADWAY. When was that agreement made, Mr. Secretary?

Secretary MELLON. The proposals were made, I think, in 1919 and 1920. That was reported in Secretary Houston's report to Congress.

The CHAIRMAN. That was the matter that Mr. Davis came before the committee about in 1919; I remember.

Mr. GREEN. Mr. Davis came before the committee and wanted to have the committee indorse this proposition, which subsequently was carried out. The committee failed to take any action one way or the other, as I understand, because the committee did not consider it was a part of their functions so to do, independent of any question of the merits of the matter. Mr. Davis then informally sent word to the committee that if the committee took no action thereon, the Treasury would proceed in accordance with the plan which had been, in a somewhat general way, sent to the committee.

Mr. TREADWAY. Mr. Green, I think it went a little farther than that. I think when Mr. Davis appeared he stated that he felt the law gave him authority to do it anyway, whether we took any action or not, but he preferred to have our sanction of his action.

Mr. GREEN. Oh, yes; that is quite true. He said that the legal advisers of the Treasury had informed the Treasury that there was no question at all about the right of the Treasury to take such action, independent of anything that the committee or Congress might do, unless Congress should take some adverse action and change the law as it then stood.

Secretary MELLON. As a matter of fact, the foreign Governments were advised that in connection with the funding they could defer the payment of the interest for that time, and that was reported to Congress and nothing was done, and more than two years of the time has gone by now.

Mr. GARNER. Mr. Secretary, in order that the record may reflect my recollection about that matter, it is this: Mr. Davis came here and wanted the sanction of Congress, and if he could not get the sanction of the Congress, he wanted the sanction of this committee, and it developed in the committee that there was a very acute division of opinion. I remember that I opposed it and I remember that Mr. Crisp opposed it, and the result was that Mr. Davis left the committee and said he thought he had the power, but he would rather have the sanction of Congress. Now, if that was ever reported, as you say, to Congress, it has never come under my observation.

Secretary MELLON. Oh, yes; it was reported in Mr. Houston's report to Congress.

Mr. GARNER. His annual report?

Secretary MELLON. His annual report; yes.

Mr. GARNER. Does the annual report, Mr. Secretary, show just exactly the length of time he agreed to extend the payment of interest?

Secretary MELLON. Not exactly. There has so far been no funding, and therefore no definite terms have been agreed upon. He states that the foreign Governments were advised that in connection with the funding they could defer the interest for a period of two or three years. It was indefinite, but more than two of the years have gone by, and the matter has been acquiesced in.

Mr. GARNER. More than two of the years have gone by and on April 3 the limit of extension will come about.

Secretary MELLON. Yes; substantially that.

Mr. LONGWORTH. Do I understand, Mr. Secretary, that the department now takes the same view that Mr. Davis did, that you have abundant authority to make arrangements for refunding and deferring the interest?

Secretary MELLON. It is not exactly that, but this arrangement was made, that is, the foreign Governments were so advised, and our view is that we are under an obligation to carry out that arrangement.

Mr. LONGWORTH. But as to future arrangements?

Secretary MELLON. There is nothing binding so far as the future is concerned.

Mr. LONGWORTH. What I mean is, do you think you have the authority to make future arrangements which involve refunding or postponement of interest?

Secretary MELLON. To a limited extent, under the authority which is given under the Liberty loan act. That is the only authority that the Treasury has, I believe.

Mr. FREER. You are asking for such authority now in a measure which is before the Senate?

Secretary MELLON. Yes.

Mr. GARNER. Mr. Secretary, following up Mr. Longworth's inquiry, if Congress gave you no additional authority, would you still act on the assumption that you have authority to continue to extend the interest payment by the foreign Governments at the end of three years, in April of next year?

Secretary MELLON. No; I do not think any such authority exists, except possibly to some extent in connection with the funding of the demand obligations.

Mr. GARNER. If they had the authority three years ago, what action of Congress has taken that authority from the Treasury Department?

Secretary MELLON. That was authority that came about through the negotiations and through the refunding. I believe they considered that having the authority, under the Liberty loan acts, to make these extensions, that while those negotiations were going on, they had the authority to defer interest for a limited period.

Mr. GARNER. My position, Mr. Secretary, is that they never had any such authority, and if they did have that authority two years ago there is no reason why they have not got it now. If the law gave them authority to extend the time for the payment of interest at any one time, I do not see why the law would not give them authority to extend it at another time.

Secretary MELLON. I do not think any authority exists for any further extensions.

Mr. GARNER. But you do believe they had authority at the time to extend it.

Secretary MELLON. Oh, I do not know, but it is an accomplished fact. It was done.

Mr. FREAR. That is purely a legal question.

Mr. TREADWAY. And you accept the moral obligation of your predecessor?

Secretary MELLON. Yes; and there was no occasion to inquire into the matter.

Mr. TREADWAY. And you have not inquired into the situation that Mr. Garner raises?

Secretary MELLON. No; not especially.

Mr. TREADWAY. And have not thought it was incumbent upon you to do so?

Mr. YOUNG. You are asking, Mr. Secretary, for a permanent refunding law, whereas your predecessor arranged for a temporary extension.

Secretary MELLON. Oh, no; the negotiation then was that they were endeavoring to reach a conclusion on a full refunding of the debt, but they never arrived at that conclusion. They never came to an agreement on that, and it was just during those negotiations and in connection with the funding that the deferment of the interest was allowed.

Mr. CRISP. Mr. Secretary, does the understanding by which the interest due this Government is deferred carry with it relief from paying interest on this interest deferred by the foreign Governments?

Secretary MELLON. It does to the extent of that temporary extension of the time.

Mr. HAWLEY. I thought, Mr. Secretary, that was to be redistributed and added, as it were, to the principal, and that the rate of interest was to be increased after that date to reimburse us for the loss of interest during the period in which no interest was paid.

Secretary MELLON. Yes; but I do not understand that that is the question that has just been asked.

Mr. LONGWORTH. No; the question was with reference to interest on interest.

Mr. CRISP. My question was whether this Government would receive interest on the interest due us for the three years for which the payment of interest is postponed.

Secretary MELLON. Not for that time. No compound interest is paid for that period.

Mr. CRISP. That was my question, and the Secretary understood my question correctly.

The CHAIRMAN. Mr. Secretary, it was stated by Mr. Davis that the plan was this: The short-time obligations that our Government held of the foreign Governments carried a rate of interest of 5 per cent, and the upset price agreed upon between our Government and the foreign Governments was that the rate of interest those obligations should bear was 5 per cent, although the act authorizing our Government to make the loans stated, I believe, that we should charge no more than the rate of interest that it cost our Government to raise the money; but Mr. Davis stated that while at the time of the making of these loans the rate of interest in this country was lower, before the war was over it might cost us a great deal more than 5 per cent to raise the money here, and the foreign Governments agreed with our Government that an upset price of 5 per cent interest would be satisfactory to the foreign Governments. As to the deferred interest, Mr. Davis stated that after the end of that period of three years it was proposed that for two years we were to receive $5\frac{1}{2}$ per cent on these foreign loans, for the next period of two years 6 per cent, and then for eight succeeding years $6\frac{1}{2}$ per cent. Then we were to drop back to 5 per cent, because during that 12-year period the one-half of 1 per cent and 1 per cent and $1\frac{1}{2}$ per cent over and above 5 per cent would pay us back the interest for those three years.

Secretary MELLON. Those were tentative arrangements and did not mean that the foreign Governments would pay at the rate of $6\frac{1}{2}$ per cent or $5\frac{1}{2}$ per cent, or at rates above 5 per cent at all, but that was an additional rate added to pay back this accumulated interest for the time.

The CHAIRMAN. Yes.

Secretary MELLON. And I do not think that contemplated compound interest. It was just in that way the interest was taken up.

The CHAIRMAN. Yes. The interest rates were increased in order to make it appear that they were not paying compound interest, but they were really reimbursing us for interest on interest in that way.

Mr. BACHARACH. I do not understand it in that way.

The CHAIRMAN. Now, Mr. Secretary, do those obligations which our Government holds against the foreign Governments yet remain as demand obligations?

Secretary MELLON. Yes.

The CHAIRMAN. They have never been changed to long-time obligations?

Secretary MELLON. Nothing has been done, and they stand in the original form.

The CHAIRMAN. If I am correct in my understanding of the proposed bill which you sent here, and which I introduced, you asked for authority to extend those loans and put them in long-time obligations?

Secretary MELLON. Exactly.

The CHAIRMAN. You think that is necessary?

Secretary MELLON. I think that is necessary with these larger loans; that is, the loans made under the Liberty loan act; they are on different terms under the different acts, and it would be difficult under an existing law to make a good piece of work of it. We would have, say, from Great Britain, a number of different kinds of securities if we followed the authority that was given under those acts, and the broad authority for which we are asking now would, treating them all as one, lead to consolidation and the making of terms.

Mr. BACHARACH. Mr. Chairman, I think you are in error about your understanding of the Secretary's statement in regard to compound interest. As I understand it, we are not to get compound interest on the foreign loans.

The CHAIRMAN. I did not understand it that way. I stated this: That Mr. Davis said, in order to reimburse us, it would practically be interest upon interest; that the rate of interest would be increased one-half of 1 per cent above the regular rate, which was 5 per cent, and that for two years we were to receive $5\frac{1}{2}$ per cent on these foreign loans, then 6 per cent for two years more, and $6\frac{1}{2}$ per cent for the next eight years, and that during those 12 years the increased rates above 5 per cent which those foreign Governments would pay would amount to \$1,425,000,000, which would really be the interest upon these deferred payments for three years.

Mr. BACHARACH. That is, assuming they could borrow money at 5 per cent, but for which they are now paying 8 per cent.

The CHAIRMAN. Yes. If you will remember we asked him what rate of interest those foreign obligations averaged, or our foreign obligations averaged, which he stated was 4.26, as I now remember, and that we were getting 5 per cent from the foreign Governments; therefore we were getting seventy-four hundredths of 1 per cent above what it was costing us to borrow that money, and that, together with those increased rates of interest which I have just mentioned, would reimburse us in a sum equal to compound interest for those extended payments.

Mr. HAWLEY. Annual interest, not compound interest.

The CHAIRMAN. Well, annual interest upon the deferred payments. For instance, at that time there was about \$500,000,000 of interest due us, or \$475,000,000 of interest on a total of \$9,500,000,000. That would amount in three years to \$1,425,000,000. Now, if we deferred that payment for three years and they paid no interest and the interest increased one-half of 1 per cent for two years, 1 per cent for two years more, and $1\frac{1}{2}$ per cent for the succeeding 8 years, that would amount to \$1,425,000,000, and be the equivalent of interest upon interest.

Mr. BACHARACH. I understood your statement; but I was under the impression that the Secretary did not have that thought in mind, but probably he did have it in mind.

Mr. FREAR. Has not this a bearing upon something that occurred in the past, and of which the Secretary is not advised except in a secondary way?

Mr. MELLON. I could explain that. You see, under the Liberty loan act the $3\frac{1}{2}$ per cent loans had conversion privilege into bonds at higher rates, and they were bound under the terms of the Liberty loan act to follow that; if on any portion of our bonds we paid a higher rate they had to pay a higher rate, which made it a rather

complicated calculation. So it would be very difficult to tell whether the making of a flat 5 per cent rate included any compound interest or included anything more than the interest they had contracted to pay.

Mr. YOUNG. Is not this a matter that ought to go over until we take up that particular bill?

Mr. HAWLEY. If these foreign loans are refunded along the lines of the bill you suggest, and we get bonds for them, would it be the policy of the Treasury to sell those bonds and thereby obtain some revenue during the next fiscal year or some near period for the purposes of government?

Secretary MELLON. I do not imagine it could possibly come at as early a date as that. The question of selling those bonds would depend upon their marketability and upon the then existing conditions.

Mr. TREADWAY. In other words, under the bill you now have before the Senate, or have recommended to the Senate, there would be no chance to secure any revenue that will help us in the present financial situation?

Secretary MELLON. I do not believe there is anything you can take into consideration now.

Mr. FREAR. I would suggest that we get Mr. Mellon's views as to the method of securing some of the necessary revenue he has told us we must have to run the Government. In other words, it seems to me we have strayed off to another subject.

Mr. GREEN. If I may be permitted, I would like to inquire with reference to some of these estimates for the year 1922.

Mr. FREAR. May I ask, in order to make this intelligible in the record, that it be offered by Mr. Mellon in some way, so that we can follow these questions and answers, and so the record will show just what you are reading from. Is this the statement from which you are reading?

Mr. GREEN. No; I was going to read from something else.

Mr. FREAR. I have no understanding of what it refers to.

Mr. GREEN. I was intending to refer to his statement of the estimated disbursements, as contained in his letter of April 30, 1921, the estimated disbursements for the year 1922. Take the first three items, legislative, \$17,000,000—I am using round figures—executive, \$1,897,000, and State Department, \$10,344,000. I do not suppose there is any likelihood of any change in those or in the Department of Justice, of \$17,000,000. That is a slight reduction from the fiscal year that just closed. It is anticipated, is it, that there will be a slight reduction in the expenses of the Department of Justice?

Mr. GILBERT. A slight reduction, of a few hundred thousand dollars.

Mr. GREEN. There is \$2,200,000 for the Post Office Department. In the Interior Department I note the first large appropriation of \$322,000,000. That is a slight reduction from the \$323,500,000 for 1921. I was under the impression that the amount to be disbursed for pensions would be slightly larger for 1922 than for 1921, but apparently I am in error about that.

Mr. GILBERT. It appears to be about the same, according to the estimates.

Mr. GREEN. If anything it will be a little smaller, then.

Mr. GILBERT. A trifle, perhaps.

Mr. GREEN. The Department of Agriculture for 1921 was estimated at \$107,000,000 and for 1922 \$123,000,000. Can you state what that addition of \$16,000,000 was anticipated to be for?

Mr. GILBERT. I am not able to state offhand what that is, but I should say that it was on account of roads. That is a matter on which the Department of Agriculture can speak better than the Treasury Department.

Mr. GREEN. There is a very large appropriation authorized for roads; that is evidently included here, and Congress may have to determine about that one way or the other.

Mr. MADDEN. There is no appropriation for 1922.

Mr. GREEN. No appropriation, but an authorization.

Mr. MADDEN. No; it passed the House but not the Senate.

Mr. GREEN. That is my mistake, then. I am glad to have you correct me, Mr. Madden, on these matters with which you are more familiar than I am. The Department of Commerce carried \$23,333,300 for 1921 and the estimate for that department is reduced to \$19,923,000. It is expected that there will be a reduction there.

Mr. GILBERT. Yes.

Mr. GREEN. The Department of Labor was substantially the same. The independent offices, which were put at \$112,459,000 in 1921, are estimated at \$133,391,000 for 1922. Do you know where that increase is?

Mr. GILBERT. That increase is almost wholly for the Board for Vocational Training, and as a result of their estimates there has been a subsequent increase in that original estimate of \$133,000,000. According to the information now at hand it ought to be about \$178,000,000. However, that depends a great deal upon the appropriations which may be granted.

Mr. MADDEN. \$65,000,000 was appropriated for that purpose, and they submitted an estimate of \$99,000,000.

Mr. GILBERT. That is the basis on which this is made.

Mr. GREEN. That is one of the things we want to know. The District of Columbia is very nearly the same but a little bit larger for 1922. The miscellaneous for 1921 is put at \$81,500,000 and for 1922 at \$60,407,000. You evidently anticipate quite a reduction there?

Mr. GILBERT. Yes; that is a catch-all item and includes a good many offices that have reduced expenditures; but it is hard to pick out any one item.

Mr. GREEN. That is largely from a reduction of expenditures in the Government offices?

Mr. GILBERT. Yes, in the civil establishment of the Government.

Mr. GREEN. The Bureau of War Risk Insurance, which had \$233,074,000 in 1921, is estimated at \$262,917,000 for 1922. Is that large enough, or has that been increased?

Mr. GILBERT. We increased that by \$10,000,000 on account of the Sweet bill.

Mr. GREEN. That bill will increase that about \$10,000,000?

Mr. GILBERT. Yes, sir.

Mr. GREEN. The Bureau of Public Health is just about the same?

Mr. GILBERT. Yes.

Mr. GREEN. Collecting the revenue is about the same, although there is a little additional. I suppose that is on account of the prohibition act?

Mr. GILBERT. Yes; and perhaps to collect back taxes.

Mr. FREAR. Can we not reach the big question we have here to-day?

Mr. GREEN. It seems to me this is a big question.

Mr. FREAR. The big question is what we are going to put into the new tax bill.

Mr. GREEN. We will have plenty of time for that.

Mr. FREAR. All right. If you are going to ask somebody else questions and hold the Secretary long enough to ask him questions, it is all right.

Mr. GREEN. It will not take very long to conclude this. Under the head of "all other" there is a considerable reduction, and I suppose that is because of a reduction in some of the departments. Now, the War Department and the Navy Department I will pass over, as we ought to know as much about that as the Treasury itself, although I notice the War Department is put at \$569,750,000 and the Navy Department at \$545,225,000. The Shipping Board for 1922 is put at \$124,200,000.

Mr. MADDEN. \$25,000,000 is all we appropriated for them, and that was for the ship construction program, and \$55,000,000 we allowed them to use out of the sale of ships or other supplies.

Mr. GREEN. All the other items here are self-explanatory and are mostly fixed charges.

Mr. FREAR. If I may ask a question, it is this: Will the Secretary, in a few words, tell us what taxes that we at present have in the statutes should be remitted and what new taxes he would advocate to take their place? If he can do that briefly, it will help us as a starting point, so that we can ask some questions.

Mr. GARNER. I do not want to ask a question, but may I make this suggestion? In order that there may be no mistake as to the amount of money and the items for which it is desired for the fiscal year 1922, I want to put in the record at this point the estimated expenditures and for what purposes in as great detail as possible for the year 1922.

Mr. FREAR. You mean 1923?

Mr. GARNER. No; the year 1922. You can evidently give that. I understand it will take \$4,550,000,000 to run the Government this fiscal year. Now, I want to put in the record a statement showing just exactly for what purposes you expect to use \$4,550,000,000, and I was just wondering in that connection whether you had taken into consideration Gen. Dawes's statement that he expects to save \$125,000,000 of the moneys already appropriated for the various departments of the Government.

Mr. GILBERT. We have reduced some figures, and modified other figures, in the letter of April 30 as to the War and Navy Departments.

Mr. GARNER. If I understand it, you can put in the record just how you expect to expend the \$4,550,000,000 that you say is necessary for this fiscal year.

Mr. GILBERT. We will have an itemized statement put in the record.¹

Mr. FREAR. Now, the Secretary will kindly help us to get a start on this subject.

Mr. GARNER. Tell us where we are to get the money.

¹ See statement of Aug. 4, pp. 447-448.

Mr. FREAR. Tell us what, in your judgment, ought to be remitted, what changes ought to be made, what additional taxes ought to be added, and give the total amount, in your judgment; that should be required for 1923, which is the next fiscal year for which we are to provide.

Secretary MELLON. Well, I suppose I might start with the corporation tax.

Mr. FREAR. Take it in your own way.

Secretary MELLON. Well, the suggestion made is that the excess-profits tax be abandoned and that there be an additional 5 per cent flat tax on corporations, making a 15 per cent tax on the net income of corporations.

Mr. FREAR. Would you like to make your statement entirely without interruption and then allow us to ask questions? That would be better, probably, would it not? It would be a more connected statement if you will just make a statement and continue on, and then we will not ask questions until you have finished.

Mr. MELLON. Well, you have that 15 per cent corporation tax, eliminating the excess-profits tax entirely. Then, as to the income tax, the change suggested related to the higher surtax brackets, that they be brought down to a total tax of 40 per cent, including the normal tax.

Mr. FREAR. That is from 73?

Mr. MELLON. Yes. Then, that some readjustments be made in the lower rates.

Mr. FREAR. Have you made any recommendation as to that?

Secretary MELLON. No rates have been suggested.

The CHAIRMAN. It is all in that document you have before you?

Secretary MELLON. All that I am giving you now is in that statement.

Mr. FREAR. In this statement [indicating]?

Secretary MELLON. No; I mean in the letter of April 30 to the chairman.

Mr. HAWLEY. If we make the change in the corporation tax as suggested, eliminate the excess-profits tax and increase the corporation tax to 15 per cent, what difference would that make in the amount of money raised from the corporations?

Secretary MELLON. Not a great deal. It is pretty difficult to estimate under the present conditions of business just how much the excess-profits tax would produce and what the flat tax would produce, but the 5 per cent would come approximately to the amount of the excess-profits tax. This calendar year it may be \$100,000,000 short there, reducing the revenue for the fiscal year about \$50,000,000.

Mr. FREAR. How would it be if we raised it to 16 per cent, as proposed by Secretary Houston?

Secretary MELLON. Well, that might more nearly cover it.

Mr. FREAR. What would be the objection to doing so?

Secretary MELLON. It would mean a heavier tax.

Mr. FREAR. Just as a reduction to 14 per cent would make it easier than 15 per cent?

Secretary MELLON. Exactly.

Mr. FREAR. What led you to fix upon 15 per cent instead of 14 per cent or 16 per cent?

Secretary MELLON. That was to approximately take care of the amount that the excess-profits tax had produced.

Mr. FREAR. But it seems it will not, according to your statement. Why not, then, put it at 16 per cent?

Secretary MELLON. Well, it would seem like too severe a burden on corporations whose dividends are subject to surtax in the hands of stockholders.

The CHAIRMAN. In other words, it does not seem that it ought to be necessary to raise as much money from the corporations in peace times as in war times?

Secretary MELLON. That is true.

Mr. HAWLEY. It is also argued that if we eliminate the excess-profits tax, do not increase the normal tax, and allow the money that would otherwise go into the Treasury to go back into business and rebuild the industries of the country, that in a short time the amount earned by the increased business would offset that 5 per cent and probably more. What do you think of that?

Secretary MELLON. I think that is a sound conclusion.

Mr. FREAR. Would it not be equally sound, Mr. Secretary, to put on a 10 per cent normal tax, without any increase, if that is going to be the basis of reasoning for changing from 16 to 15 per cent?

The CHAIRMAN. It would, except that you need the money.

Secretary MELLON. There was, in addition to the 15 per cent flat tax, the suggestion that the exemption of the \$2,000 on corporation be eliminated.

Mr. FREAR. Do you think that is a wise proposition, in business?

Mr. BACHARACH. How many corporations are there with earnings of only \$2,000?

Mr. MCCOY. There was a list of over 100,000 reporting that did not have any net income.

Secretary MELLON. That is, 100,000 corporations.

Mr. FREAR. They must have earned less than \$2,000.

Mr. BACHARACH. Would you not think it was manifestly unfair for a small corporation to pay a \$300 tax on the 15 per cent basis, assuming that to be the basis, where, if they were just individuals they would pay only \$80? It seems to me you are going to drive the small corporations out of business.

Secretary MELLON. No; partnerships have no such exemption or deduction in computing net income.

Mr. BACHARACH. But they are going to pay both, in this case. You are going to take \$300 away from their earnings where now they have an exemption up to \$2,000.

I understand Mr. McCoy to say there are about 100,000 corporations earning \$2,000 or less. It seems to me, where they can maintain their business with an \$80 tax, or a normal tax, they would certainly pay that rather than pay \$300 Government tax. You are not only depriving the Government of the funds, but there are also State taxes on corporations. It seems to me it is unfair to a small corporation to be charged at the same rate as larger corporations.

The CHAIRMAN. I think I am correct in stating that under existing law a copartnership doing the same amount of business, with the same amount of capital, where the profits are not large, pay a less tax than a corporation would pay, but when you get to the same amount

of capital, with a very large volume of business, there is a great discrimination against the copartnership or individual.

As an illustration, when this law was in conference, to bring out a point you brought up, the ——— company, of Chicago, a copartnership, doing a business of \$20,000,000 a year, came before the committee and pointed out that their taxes for that year as a copartnership would be \$600,000 greater than if they were incorporated.

Mr. BACHARACH. That is the thing I hope we are trying to get away from.

The CHAIRMAN. We ought to correct it, if we can do it.

Mr. BACHARACH. I think that is one of the causes of the most complaints in regard to the present law. I do not see why a small corporation, which might be incorporated for business reasons, as they do in New Jersey, if they do not earn very much money, should be treated in that way. In fact, when they earn less than \$2,000, they have to pay \$300 to the Government, where if they have a straight tax they would pay but \$80 to the Government; it is not fair and I do not think we are going to get in the revenue from that source.

The CHAIRMAN. If it is possible to write the law so that an individual or copartnership doing business could pay the same amount of tax upon the same amount of profits that the stockholders in a corporation would finally pay in the taxes laid on a corporation, then the taxes would be added to the dividend and they would pay equally.

Mr. CRISP. Mr. Secretary, you are the fiscal agent of the Government and I know you have given these matters great study. One of the common complaints of business people is the excessive cost of transportation. I would like to know whether you would recommend that the taxes on transportation should be retained or repealed?

Secretary MELLON. The suggestion we made about it was that the transportation tax be kept, but that it be reduced to one-half for the calendar year 1922, and be abandoned the next year.

Mr. HAWLEY. In the changes proposed in connection with the personal income tax, reducing the tax on the higher brackets, and slightly increasing the taxes on some of the intermediate brackets, what would be the amount of revenue which would be produced under your suggestion, as compared with the amount of revenue under the present act?

Secretary MELLON. The idea is that in the long run it will produce at least as much at a lower rate, the reason being that the higher surtax prevents the consummation of transactions that would be consummated, and from which the Government would receive revenue.

Mr. FREAR. What figures have you on that, Mr. Secretary? That is, what would we lose by reducing from the 73 per cent to the 40 per cent? Have you any data on that; that is, in reference to funds now invested in tax-exempt securities?

Secretary MELLON. It is not altogether a question of tax-exempt securities. If you have, say, a man who has a higher surtax to pay he may have a property that he has held since 1913, or securities he has held since that time, on which the value has increased. He may have an opportunity to dispose of that property or those securities, but if he does he would have to pay that 70 per cent to the Government on the profit. That prevents the transaction entirely, whereas,

if a lower rate applied he might be willing to make the transaction and pay 20, 25, or 30 per cent.

Mr. FREAR. I understand that would be a question of whether he would be willing to accept that profit and have this deducted?

Secretary MELLON. Yes.

Mr. FREAR. Have you any figures to show why this should be brought down to 40 per cent or whatever would be the amount of the reduction? You say one would offset the other? How much would it be?

Secretary MELLON. The revenue received from the higher brackets has been falling off very rapidly, which shows that they are becoming nonproductive; and, estimating from that, and from all the information obtainable, I do not think there is any doubt that the provisions at the lower rate would produce at least as much revenue.

Mr. FREAR. You mean 40 per cent, without increasing the lower rates?

Secretary MELLON. Yes; I think a lower rate than 40 per cent would produce as much in the long run.

Mr. FREAR. Have you any data to support that? I understand the argument, and it may be a good one, but I am inquiring whether there is anything on that subject to support that contention.

Secretary MELLON. There is of course nothing very definite. I can give you the figures on what the reduction has been.

Mr. ADAMS. I do not see how there could be any data. The whole argument is based upon the effect of the reduction in unfreezing transactions which are now frozen. I think you have got to take it on general reasoning, because there are no figures.

Mr. FREAR. Let us take the illustration given by the Secretary. He gives an illustration of real estate which is held and not sold, because of the objection to having this large amount paid in taxes. Of course that is only a case where one may have real estate held for sale. In the case given by Dr. Adams, where a man may invest in tax-exempt securities, they do that rather than have that amount of money free. I was wondering whether you can give us any particular information on that; or is it to become merely a matter of argument?

Secretary MELLON. There are thousands of such cases. It is, to my mind, largely a question of what I have seen in experience, where transactions have been blocked, where the flow of operations has been stopped on that account. There are thousands of such cases where people have not been able to go into undertakings, simply because of the amount that would have to be paid to the Government.

Mr. FREAR. On what basis do you reach the figure 40 per cent? What is the reason for that?

Secretary MELLON. In our conferences——

Mr. FREAR (interposing). That includes 32 per cent, as I understand it, in addition to the 8 per cent?

Secretary MELLON. In our conferences we considered that a lower rate than 40 per cent would be preferable and would accomplish the same purpose, or yield the same amount of revenue. You can see that if one of these operations I speak of is prevented by the higher surtax, the Government gets nothing at all.

Mr. FREAR. I understand.

Secretary MELLON. Then if the rate is lowered, the Government at least gets the lower rate, if it allows the transaction, and there are constantly, all the time, hundreds of transactions that are stopped.

Mr. FREAR. The reason I asked the question is because the committee has been advised that the proper rate to fix is 20 per cent, and I am asking if there is any information that particularly suggests that the rate should be 40 per cent?

Secretary MELLON. No, really 20 per cent is a sounder figure than 40 per cent. I believe that in the long run 20 per cent would produce at least as much revenue to the Government as the 40 per cent.

Mr. FREAR. That has been the claim made to our committee.

Mr. TREADWAY. You used the illustration of a real estate transaction, in which the high surtax would prevent the transaction being made. I think the same argument would apply if there was annually in the return this special form of income, which results in a man who might have a very large income carrying him into the high brackets, going into tax-exempt securities.

Secretary MELLON. Yes; but I have known of a great many cases where men with large incomes have had interests in corporations that could be realized, such as stocks, bonds, etc. But when they consider the question of the tax that would have to be paid, it simply prevented them from going on with that transaction.

Mr. FREAR. You are familiar with the table given out by your department for 1918, in which, in the case of men returning incomes of \$2,000,000 or more, on the average, the income is divided into 72 per cent dividends and only about 18 per cent of all income from interest, including the tax-exempt securities?

Secretary MELLON. Yes.

Mr. FREAR. I was wondering whether you have anything later than 1918 on that subject?

Mr. ADAMS. We have 1919.

Mr. FREAR. What is the comparison there?

Mr. ADAMS. Sixty-one per cent from dividends; 10.47 per cent from interest and investment income.

Mr. FREAR. I mean for the higher incomes?

Mr. ADAMS. The proportions paid by dividends is very high, but it gets lower as you go to the lower incomes.

Mr. FREAR. It seems that it is about 44 per cent at \$80,000 and \$100,000, and only about 12 per cent of interest. Of course, the large percentage comes from dividends, while the amount from investments in tax-exempt securities and all others only reaches about 18 per cent.

Mr. ADAMS. Interest from tax-free securities is not included in gross or net income. You can not tell how much there is. You asked for some figures a moment ago. For the year 1916, there were reported, by the people having incomes of over \$300,000, \$992,000,000 income.

Mr. FREAR. You have not those analyzed in the various classes of income.

Mr. ADAMS. They do not report their tax-free interest correctly.

Mr. FREAR. That is not reported in connection with this?

Mr. ADAMS. It does not go into the net income.

Mr. FREAR. So this is the only income you have which is analyzed?

Mr. ADAMS. Yes.

Mr. FREAR. Mr. Secretary, in relation to the excess-profits tax which you speak of, do you think a flat tax is fairer to corporations, as a rule, small corporations and others, than an excess-profits tax?

Secretary MELLON. I believe so, and then it is a much simpler tax. The excess-profits tax is very difficult of administration.

Mr. FREAR. The purpose of your recommendation is simply to change from one form to another, but the corporations will pay the same tax, as I understand it?

Secretary MELLON. As a whole.

Mr. FREAR. Substantially?

Secretary MELLON. Yes.

Mr. TREADWAY. Your recommendation, No. 3, speaks of repealing the excess-profits tax as of January 1, 1922. Do you refer to the report that will be made by individuals or corporations from that date, or do you mean that there shall be a tax levied up to that time? In other words, will it apply to this year's transactions or next year's transactions?

Secretary MELLON. As was suggested in the beginning, it would apply to this year's transactions, but there might be some additional revenue gained by deferring it to the beginning of the year 1922.

Mr. TREADWAY. If we kept it on for the present year, business would be under the effect of the excess-profits tax up to next January?

Secretary MELLON. Yes.

Mr. TREADWAY. It is just a question as to which way Congress prefers to do, whether it prefers to have business relieved of the excess-profits tax for the business now being done, or whether it is to start next year.

Secretary MELLON. It would be much better if it could be eliminated immediately.

Mr. TREADWAY. As of this year's business?

Secretary MELLON. As of this year's business, yes.

Mr. TREADWAY. When you speak of repealing the tax as of January 1, 1921, you refer to the reports that should be made on the 1921 business?

Secretary MELLON. Exactly.

Mr. TILSON. Would it not be more in accordance with their present expectations, at least with their calculations, if they would charge an excess-profits tax for 1921, because they have had no reason, or no sufficient ground for supposing it would be repealed?

Secretary MELLON. Possibly.

Mr. TILSON. They probably have made their arrangements accordingly?

Mr. FREAR. On this question of taxing the undistributed profits of corporations, have you made any recommendation whatsoever on that?

Secretary MELLON. No; I do not believe that that could be accomplished equitably.

Mr. FREAR. Your predecessor, you know, made that recommendation, and he fixed the rate of 20 per cent and, as I remember, on that basis estimated there would be \$690,000,000 which could be raised. You recollect that was Secretary Houston's recommendation

in his report. Would you think that any amount of tax should be levied upon the undistributed profits?

Secretary MELLON. I think the effect would not be favorable at all. I do not think that is a sound proposition.

Mr. FREAR. Of course we can not now levy a tax upon stock dividends that are issued. We have learned that. But is there not a certain amount that can be set aside by corporations in a case of that kind—that is, under the individual income that would be reached otherwise?

Secretary MELLON. It is more equitable to tax them on their income; it would be better to make a larger flat tax.

Mr. FREAR. How does it compare with partnerships in that respect—that is, partnerships earning money in the same way?

Secretary MELLON. Of course the partnership profits have to be returned individually by the partners, and the tax depends on what their incomes are and what their surtaxes are.

Mr. FREAR. Would it be easier or harder in the case of the partnership than in the case of the corporation, on the average, under the present system, because the partners are taxed on their earnings? In other words, they are distributed to the partners in that way, in many cases.

Secretary MELLON. There is an inequality in cases of partnerships.

Mr. FREAR. Would it be an injustice to levy, say, a small tax of 5 or 10 per cent upon the undistributed profits of corporations, that would raise, say \$100,000,000, estimated on Secretary Houston's basis of the revenue on 20 per cent, which seems quite high, I think?

Secretary MELLON. It is not in the right direction; it would have a bad effect on industry, and on the dividend policy of corporations.

Mr. FREAR. I think the committee understands what you mean. But, I mean, would such a tax of 5 per cent to bring in, say, \$100,000,000, have such an effect on the corporation that it would be distributed against the best interests of business?

Secretary MELLON. Of course, the smaller the tax the less injury there would be.

Mr. FREAR. Naturally.

Secretary MELLON. But I do not think it is a sound proposition at all.

Mr. TILSON. Should there not be some way whereby a partnership, or a sole owner, for that matter, might have some sort of consideration for what he puts back into his business, where he buys machinery or anything of that kind that goes into his business? The corporation would be relieved from paying a tax on that, whereas the individual payer or partnership must pay the full tax on it?

Secretary MELLON. There might be something that would do that.

The CHAIRMAN. In line with Mr. Tilson's question and the thought expressed by Mr. Frear in reference to taxing undistributed earnings of a corporation or an individual, and especially a bank, that is put back into the business, that, in my opinion, is taxing capital. If a corporation earns money which it does not distribute to its stockholders, but it adds to the plant by building machinery and increasing production and employment, or if money earned by a bank is put into the reserve fund, undivided profits, or surplus and finally merged into the stock capital of the bank, to tax that money would be bad policy and would not encourage business to expand.

Mr. TILSON. You are taxing the capital of the sole trader and of the partnership very high, the capital which he puts back into the business.

The CHAIRMAN. The same thing would apply to the individual as applies to the corporation, where money is honestly put back into the business, and to tax it, in my opinion, would be taxing capital.

Mr. WATSON. Mr. Secretary, I am somewhat interested in having the returns simplified. In England they have six or seven classes of returns, one for the farmer, one for the banker, and so forth. Do you think it would be practicable to have several returns here, in order to simplify the returns?

Secretary MELLON. I think the returns can be simplified to an extent; I do not know how it would work to classify them in that way.

Mr. WATSON. I think they have seven classifications. I have copies of the returns in my office, and they are simplified.

Secretary MELLON. I will look into that question.

The CHAIRMAN. Let me ask the Secretary this question: How many corporations are there in the country? Perhaps Mr. McCoy can give the total number of corporations.

Mr. MCCOY. This year there will be from 220,000 to 230,000; that is the number returning net income.

The CHAIRMAN. It was suggested the other day by one gentleman who appeared before this committee that we could greatly simplify the corporation taxes by merging them all into one, which would be one corporation income tax. He suggested that if we repealed the capital stock corporation tax and put 1 per cent additional on to the corporation income tax to cover the corporation stock tax, it would simplify the matter and make one corporation tax, repealing the excess-profits tax and repealing the capital stock tax, and put the whole thing in a corporation income tax. He stated that the receipts from the corporation stock tax were \$93,000,000, but you say here the amount is \$80,000,000, and that 1 per cent would cover the amount collected on the capital stock tax.

Secretary MELLON. Dr. Adams suggests 2 per cent to cover it.

The CHAIRMAN. But if we raised last year \$80,000,000, as shown here on this paper, and it is estimated that we will raise \$80,000,000 this year on the capital stock tax, 2 per cent on the income of the corporations would be how much?

Mr. ADAMS. Not over \$96,000,000, because incomes are shrinking.

The CHAIRMAN. You do not think there will be an increase in the capital-stock tax next year?

Mr. ADAMS. No; 2 per cent would yield over \$80,000,000, and 1 per cent would probably bring about \$48,000,000 or \$50,000,000. Mr. McCoy calls attention to the fact that there are about 230,000 corporations reporting incomes, but there will probably be something over 100,000 which will not pay income tax.

The CHAIRMAN. That is the point I wanted to bring out. By putting all those into one class and repealing all corporation taxes you would simplify it, would you not?

In taxing capital stock the value of the stock is a most uncertain quantity as arrived at by present methods, because some pay on more than the stock is worth and some less, and it would greatly simplify

it if we would determine about how much is raised under existing law, under the capital-stock tax, and whether a flat corporation income tax would produce a like amount.

Mr. ADAMS. The capital-stock tax is a highly unsatisfactory tax, except for its yield. As I understand the Secretary's position, he would be very glad to see the change made, if you would put on an additional income tax rate that would get the same amount of revenue.

Mr. GARNER. I notice in the memorandum you have here, in estimating the amount of corporation tax under the present law it is \$415,000,000, and under the revised tax, \$563,000,000; you estimate the excess-profit tax under the present law at \$485,000,000, and under the revised law at \$192,500,000. Where do you get the \$192,500,000 after you repeal the law?

Secretary MELLON. That is for half a year.

Mr. GARNER. You mean up to July 1 of this year?

Secretary MELLON. That is to the 1st of January, 1922.

Mr. GARNER. That is for the calendar year; you figure from July 1, 1921, to January 1, 1922?

Secretary MELLON. This covers the last two quarterly payments on account of the calendar year 1921.

Mr. HAWLEY. On page 22 of this "Confidential committee print No. 1," being "Suggested revision of Titles I, II, and III of the revenue act of 1918, following the order and section numbering of the present law," you provide, beginning on line 3, as follows:

A partial tax shall first be computed upon the basis of the ordinary net income at the rates and in the manner provided in sections 210 and 211, and the total tax shall be this amount plus 15 per cent of the capital net gain, or minus 15 per cent of the capital net loss, as the case may be.

I would be very glad to have some explanation of why that is proposed, and how it will operate.

Mr. ADAMS. You will recall there has long been a demand, and it is a legitimate demand, for some reduction of taxes on profits derived from the sale of capital assets. Mr. Longworth had a very interesting provision in his bill providing for the spread of the tax over previous years. I think that provision had the approval of the Treasury Department in the past. But it would be cumbersome in operation. It would require amended returns and a very elaborate procedure. The critics, almost all of whom welcomed the proposal, criticized, I think, the complexity of the procedure. It therefore seemed advisable to try to simplify it and to adopt a single rate. Assuming that the corporation tax rate will be 15 per cent, we suggest, in section 407, that you consider the question of limiting the tax on capital gains to 15 per cent in the case of individuals. That section does not apply to corporations, and it is not necessary, because the maximum rate is the corporation rate, and it is to be applicable to the amount derived from the sale of capital transactions, which transactions are now being stopped by the operation of the present tax itself.

There is one other important feature of that amendment. Most of the amendments suggested in the past have not applied to losses, and in this amendment the section is made correlative. It applies to losses as well as gains, and in my personal opinion there are going to be very many more such losses in the near future than gains. I feel that this provision would not only relieve this class of trans-

actions from a prohibitive tax, but it would reduce the deductions for losses in such a way that the net revenue to the Government would be increased. That is a simplified adaptation of Mr. Longworth's treatment of extraordinary income and designed to get rid of the difficulty of spreading the gain back through past years.

Mr. GREEN. That is, the provision carried in Mr. Longworth's bill is similar to the one carried in the bill passed by the House about a year ago?

Dr. ADAMS. I think so.

Mr. GREEN. It takes advantage of this fact, that you are going to fix the rate on corporations at about 15 per cent, and applies the same rate to gains and losses as applied to individuals. It is not necessary to apply to corporations at all; it is not applicable to any individual unless he is a very rich man and gets beyond this point.

Mr. GARNER. I notice Mr. Hawley read from this print of the bill which is called "Confidential committee print No. 1. H. R. —." It says, "Suggested revision of Titles I, II, and III of the revenue act of 1918, following the order and section numbering of the present law." It is dated July 28, 1921. Was this committee print prepared at the Treasury Department for consideration by the Ways and Means Committee?

Mr. ADAMS. I think that embodies a great many of the Secretary's ideas.

Mr. GARNER. The suggestions of the Treasury Department are embodied in this bill.

Mr. FREAR. Have you considered the question of raising the postage rate from 2 to 3 cents? I believe it is estimated that would amount to about \$70,000,000?

Secretary MELLON. About \$75,000,000.

Mr. FREAR. Have you discussed that with the Postmaster General, or do you know what his views are with regard to it?

Secretary MELLON. Yes; the Postmaster General and the Post Office Department say it will be all right.

Mr. FREAR. That is, they do not think there would be a public protest that would interfere with the adoption of the recommendation?

Secretary MELLON. No.

Mr. FREAR. You have also recommended, as I now ascertain from this statement, that there be an increased tax on automobiles that would amount to about \$100,000,000?

Secretary MELLON. Yes.

Mr. FREAR. Do you know whether that would create any particular opposition, or have you ascertained that?

Secretary MELLON. I do not know of any special opposition to it.

Mr. FREAR. That has not been brought to your attention?

Secretary MELLON. No, it has not. That seems to be an equitable tax, especially considering the amount of money invested in roads that are being worn out very rapidly. When you consider the burden of taxation on the railroads, it would seem that automobile traffic should bear some of the burden.

Mr. FREAR. That would make a total of what amount from that tax?

Secretary MELLON. Somewhere around \$100,000,000, I think.

The CHAIRMAN. Mr. Secretary, if we could couple with that tax a certificate of ownership to go with the license, it would very largely prevent the theft of automobiles, would it not? I do not know whether that is practicable or safe. But if we could, with the issuance of a Federal license with a \$5, \$10, or \$20 fee, include a certificate to go with that license, to go into the possession of the actual owner, signed by him, and in the transfer of the automobile to anybody else, let that signature go with it, signed by the owner, it would greatly prevent the theft of machines, it seems to me, and I would think that owners of automobiles would hail with delight something of that kind if it would help prevent such thefts.

Secretary MELLON. Perhaps something of that kind could be accomplished.

Mr. GARNER. Mr. Secretary, in your conference with the Postmaster General in regard to the possibility of raising revenue through the Post Office Department by the advance of the rate from 2 to 3 cents, did you discuss the possibility of increasing the rate on second-class matter up to the point where second-class matter would pay for its carriage through the mails?

Secretary MELLON. No; we did not go particularly into that.

Mr. GARNER. They were favorable to an increase in the parcel post and first-class rates, but they were not favorable to an increase in the second-class rates?

Secretary MELLON. We did not go into that question, and we did not recommend it.

Mr. GARNER. I was wondering if you discussed any other method of raising revenue through the Post Office Department, and if you did, whether an increase in the rate on second-class matter was taken into consideration?

Secretary MELLON. There was some objection; I believe, in connection with second-class matter, on the basis of diffusion of knowledge over the country, or something of that kind.

Mr. LONGWORTH. Would the passage of the bill for the purpose of giving additional powers to the War Finance Corporation with reference to funding railroad obligations affect the question of expenditures by the Treasury Department for the railroads?

Secretary MELLON. Affect what?

Mr. LONGWORTH. As I understand it, there is quite a large sum included in your estimate for this year's expenses of amounts paid to railroads?

Secretary MELLON. Yes.

Mr. LONGWORTH. Three hundred and some odd million dollars, I believe. Would the passage of a bill giving certain powers to the War Finance Corporation with regard to refunding the railroads' obligations reduce that amount?

Secretary MELLON. No; though the War Finance Corporation ought to be able to finance itself if conditions are favorable to the disposition of the securities; but it would depend on that.

Mr. LONGWORTH. I do not know that I exactly understand what this very large sum is that is paid to the railroads.

Secretary MELLON. It is the funding of the money owing by the railroads for additions and betterments expenditures made during the war period on the part of the Government, and those would be funded and the railroads would issue securities, which would be purchased by the War Finance Corporation.

Mr. LONGWORTH. I was speaking of the present amount the Treasury is paying out during the year to the railroads. Just what does that consist of?

Secretary MELLON. That consists of a variety of things. There is an amount payable for the guaranty period, which is another question—that is, the six months' guaranty period. Perhaps Mr. Gilbert can tell you about that.

Mr. GILBERT. The estimate for the railroad payments as given in the letter of April 30 was \$545,000,000 for this fiscal year. That included, roughly, about \$200,000,000 on account of the six months guaranty as to Federal control, and about \$50,000,000 because of loans under the \$300,000,000 revolving fund, which is about exhausted, and the balance on account of settlements for the period of Federal control. That figure may be subject to some revision.

Mr. LONGWORTH. How much is estimated for the year?

Mr. GILBERT. It was originally estimated at \$545,000,000, and the question as to whether the War Finance Corporation bill will require a revision upward will depend upon what the War Finance Corporation is able to do in the public sale of securities.

Mr. LONGWORTH. What I am trying to get clear is whether it is necessary to raise that amount by taxation.

Mr. GILBERT. It looks now as if it might involve some cash drain on the Treasury, because the available funds of the War Finance Corporation consist chiefly of a \$400,000,000 deposit with the Treasury. That is the same as a bank deposit, and any withdrawal by the corporation amounts to the same thing as a cash payment by a bank.

Mr. FREAR. In your statement, as I understand it, the estimate of receipts from the proposals submitted reaches about \$3,720,000,000?

Secretary MELLON. Yes; for the fiscal year 1923.

Mr. FREAR. Does that include receipts from the Post Office Department?

Secretary MELLON. I believe not.

Mr. FREAR. Then I was going to ask a question which I think is a very material one. Of course, this estimate is largely speculative. This is for the coming year?

Secretary MELLON. Yes.

Mr. FREAR. What would be the average in normal times in the receipts if we passed the bill substantially according to the recommendations; what would be the proportionate increase over the \$3,720,000,000? Would it be 10 or 20 per cent above that in normal times, or have you any judgment to give us on that?

Secretary MELLON. I do not believe I understand you.

Mr. FREAR. This is for a year when conditions are subnormal in business.

Secretary MELLON. Yes.

Mr. FREAR. What would be the amount of receipts in normal times to be received from corporations and other sources of revenue of which you speak, as compared with the amount for next year, because that is what this bill is for?

Secretary MELLON. You mean estimates for 1923?

Mr. FREAR. What do you estimate the receipts would be for 1924 and 1925, the percentage of increase, due to the return to normal times?

Secretary MELLON. We have no figures on that.

Mr. FREAR. I did not know but what you had made some calculations that might be of value to the committee.

Secretary MELLON. No.

Mr. ADAMS. As business recovers they would go up a little.

Mr. FREAR. I understand that is what you estimated in preparing the figures for 1923. I was wondering what would be the increase, proportionately, if business improved?

Mr. ADAMS. I think that Mr. McCoy will tell you that we presume there will be some improvement for 1923.

Mr. FREAR. In fixing these figures?

Mr. ADAMS. You have the probable growth of public expenditures to take into account, and while we do not include the receipts from the Post Office Department, we do not include the expenditures for the Post Office Department except any net deficiency.

Mr. FREAR. We went over the entire subject this morning with the chairman of the Committee on Appropriations, and we discussed the Post Office receipts and I was wondering whether they are included here?

Mr. ADAMS. Merely the net result—a deficit.

Mr. MADDEN. In the statement of appropriations that I presented for the fiscal year 1922, the entire amount of the appropriation for the Post Office Department is included, and they only include the proposed deficit.

Mr. GARNER. I see in your estimate you have the total estimated receipts, and under that you have receipts of \$3,700,000,000. Where do you propose to get the balance to make up the \$4,550,000,000?

Secretary MELLON. There are miscellaneous receipts, and also increased customs for the year, estimated, I believe, at \$70,000,000.

Mr. GARNER. You have that in your estimate. The customs are in here and the miscellaneous internal revenue is here. If you will refer to your statement dated the 21st, you will see that the total, including those, is \$3,734,500,000. I was wondering where you are going to get the balance to make up the \$4,550,000,000.

Secretary MELLON. Which year are you speaking of?

Mr. GARNER. I am speaking of 1922.

Mr. ADAMS. For 1922 the figure is given as substantially \$4,000,000,000.

Mr. GARNER. Where do you get that? This says, on page 1, that it is the estimated revenue of the United States from customs and internal revenue taxes for the year ending June 30, 1922.

Mr. CRISP. Mr. Secretary, I notice on this statement there is a suggestion that a stamp tax of 2 cents on bank checks would yield \$45,000,000.

Secretary MELLON. Yes.

Mr. CRISP. Do you approve of the public policy of putting stamps on checks?

Secretary MELLON. I would recommend that tax.

Mr. GARNER. In that connection, may I ask, if you approve of putting stamps on bank checks, why you do not adopt the policy of taxing the commercial transactions of the bank? Why do you not tax those in proportion to the size of the check, rather than putting the same tax on all checks?

The CHAIRMAN. One is a tax on the bank and the other is a tax on the individual.

Mr. GARNER. No; it is not. I am asking why you do not adopt a stamp tax and apply it to the commercial transactions of banks.

Secretary MELLON. I do not think you could put a tax on a percentage basis on transactions of banks—that is, on deposits—because there are some of those transactions which have scarcely any profit and others that have large profits, and you could not make an equitable tax in that direction. The proposed stamp tax is a negligible sum on each amount.

Mr. GARNER. I do not understand the proposition.

Mr. CRISP. Mr. Secretary, you do not think a tax on bank checks would have an injurious effect on the deposits of the bank? In other words, you do not believe it would materially affect the matter of money being deposited in the banks, if they had to pay a stamp tax when the money was withdrawn?

Secretary MELLON. I do not think it would have any effect in that direction.

Mr. FREAR. It did not during the Spanish-American War.

Secretary MELLON. We had it, and it worked very well, and generally it appears to be a popular tax. I hear the suggestion being made in all directions, "Why not tax bank checks?"

Mr. CRISP. I asked you because I thought you were an authority and could give the committee the best information on that that any witness could give us.

Mr. GARNER. If you are going to have a stamp tax on bank checks, why not have a tax of one-tenth of 1 per cent of the amount checked out, no check under \$10 to pay a tax. In that way, it seems to me, you would get considerable revenue.

Secretary MELLON. It would not work, because there are transactions, a great many transactions where the profit in the transactions would not be one-tenth of 1 per cent of the amount. A 2-cent tax is nominal, and it does not affect any transaction.

Mr. FREAR. Would it not be better, if you are going to have a stamp, to put it upon the contract or other paper representing the transaction, as we did formerly?

Secretary MELLON. That is done in the documentary taxes, and an additional amount can be put on the general documentary stamp taxes.

Mr. FREAR. What would you suggest?

Secretary MELLON. Also on stock transfers, and so forth, just about double the present rates.

Mr. FREAR. What would that make in receipts?

Secretary MELLON. About \$70,000,000.

Mr. FREAR. Do you recommend that in your statement?

The CHAIRMAN. There are various ways a stamp tax would be applied. The one suggested of putting a stamp tax of 2 cents on bank checks is so small it is not burdensome; and you will remember that Canada has a tax of 2 cents on a \$100 or fractional part thereof, and as the amount increases the sum is placed upon the note.

Mr. GARNER. That is an equitable tax and taxes everybody on the amount of the transaction. But when you put this tax of 2 cents on bank checks, when Mr. Frear gives a check for \$1,000,000 you tax him

the same as you would tax Mr. Hawley when he gives you a check for \$1.

Mr. FREAR. It seems to me the suggestion of the Secretary that we double the tax on documentary instruments really is very important to consider, if it will bring in \$70,000,000, because that is based on the suggestion made by Mr. Garner.

The CHAIRMAN. A graduated stamp tax based on a tax of 2 cents on a \$100 or fractional part thereof would yield a very large sum of money, perhaps more than we need to raise in that direction, but 2 cents on a bank check is so nominal an amount that nobody would complain about it.

Secretary MELLON. It would work very satisfactorily; I do not believe there would be any reaction.

Mr. FREAR. Now, the graduated tax, the one in existence, applies to what kinds of instruments?

Mr. ADAMS. Issue and transfer of stocks and bonds, conveyances, and so forth.

Mr. FREAR. Deeds, mortgages, etc.?

Mr. ADAMS. Yes, and also sales on the produce exchanges.

The CHAIRMAN. Mr. Secretary, I presume that Commissioner of Internal Revenue Blair would be more able to answer the question correctly; but suppose that in order to collect more equitably the tax dues upon luxuries, luxury taxes, if we retain any portion of them—it is the general supposition that the Government does not get all these taxes that we are entitled to, and whether that is true or not I do not know; but, for instance, take your taxes at the soda fountain and in a clothing store where articles that sell for a certain amount bear the tax above a certain price—could we not put a provision in this law providing for a stamp tax and compel the seller to cancel and hand to the purchaser a stamp equivalent to the tax paid upon that article.

Mr. GREEN. You could compel him to give a receipt with the stamp on it.

The CHAIRMAN. Have him cancel the stamp.

Mr. GARNER. You have in the present law the authority for the Treasury Department in establishing such rules and regulations as may seem fit and proper to collect those taxes. If the Treasury Department feels that they should possess authority to collect that, it has the authority under the present law to do it.

The CHAIRMAN. I would like for the Secretary or his assistants to suggest what they think about that kind of a tax.

Secretary MELLON. In regard to this so-called luxury tax, the recommendation is that the tax now collected from the retail purchaser be imposed upon the producer, the producer or importer, as are most of the other sales or excise taxes; that is, instead of collecting with the purchase.

Mr. TREADWAY. That would be more like the Canadian law.

The CHAIRMAN. No; the Canadian law has—

Mr. TREADWAY (interposing). A wholesale tax.

The CHAIRMAN. I know they have a wholesale tax, a manufacturer's wholesale tax, but they have a tax upon articles that are luxuries the same as we have; their taxes range from 10 to 50 per cent of the total sales price of the article, or what it sells for above a certain price.

Mr. ADAMS. I think it is very important that you should give the Treasury Department power to collect these taxes by all these devices. It is the opinion of the legal department that we have not that power now because you have mentioned it expressly with respect to some taxes but have not covered it expressly with respect to all of the excise taxes.

The CHAIRMAN. I thank you for that suggestion.

Mr. ADAMS. I think that the next revenue law should have a general provision at the end that the Treasury Department is authorized to collect these taxes by stamps, serial tickets, and a number of devices adapted to the peculiarities of the situation.

Secretary MELLON. That they be given authority by their own regulations.

The CHAIRMAN. That is a good suggestion.

Mr. ADAMS. We can not do it now.

Mr. LONGWORTH. Have you thought it over with regard to the repeal of section 904? Do you think that is a very burdensome or oppressive tax as compared with the tax on transportation?

Secretary MELLON. It is a very objectionable tax, the objection being that it is an irritating tax and very largely evaded.

Mr. FREAR. Which tax is that?

Mr. LONGWORTH. Section 904, the so-called luxury tax, a necessity when the article sells up to a certain price, but then the excess over that constitutes a luxury.

Secretary MELLON. Instead of that, appropriate rates should be made to the producer or importer under the general provisions of section 900.

Mr. LONGWORTH. There is one thing I would much hope we are going to be able to do, and that is the repeal of the transportation tax altogether; not only half of it but repeal it altogether.

Secretary MELLON. It would be very desirable, except for the question of revenue.

Mr. LONGWORTH. And by leaving out the repeal of section 904, it raises that same amount of money.

Mr. MCCOY. Section 904 does not raise over \$20,000,000, while the transportation tax raises about \$300,000,000.

Mr. BACHARACH. What proportion is freight and what proportion passenger?

Mr. LONGWORTH. Does not the luxury tax raise something around \$300,000,000?

Mr. MCCOY. We collect about \$20,000,000 from 904.

Mr. LONGWORTH. What I mean is that subject to the repeal of half of the transportation taxes, would it not be very nearly equivalent to the revenue that could be derived from 904?

Mr. MCCOY. The transportation tax would yield much more.

Mr. BACHARACH. I want to inquire as to what are the relative amounts of receipts as between the passenger fares and the freight charges?

Secretary MELLON. I was just developing that now with Mr. McCoy.

Mr. MCCOY. The proportion of freight rates is considerably more than the passenger. I imagine it would be a little more than one-third passenger and a little less than two-thirds freight.

Mr. BACHARACH. That would probably be \$200,000,000 freight and \$100,000,000 passenger.

Mr. McCoy. Passenger about \$95,000,000 and freight \$140,000,000. The freight is higher; but it is not as much as you stated.

Mr. FREAR. May I ask Mr. McCoy if the estimate of \$450,000,000 in the customs is an estimate based upon this year or 1923, or will the rate be much larger because of an increase later on?

Mr. McCoy. It is an estimate for the fiscal year 1923, in the first fiscal year under the new tariff bill.

Mr. FREAR. What will it do, if the increase is as estimated, something like \$600,000,000; that is, \$300,000,000 in addition to the Underwood bill? It would not come to that, would it, even in normal times?

Mr. McCoy. No.

Mr. OLDFIELD. What are your estimates that the Fordney tariff bill will bring in, in revenue?

Mr. McCoy. I have not quite finished it.

Mr. OLDFIELD. You made no estimates?

Mr. McCoy. I made some estimates about the bill as it was introduced and before it was changed on the floor, but I have not finished the estimates on the bill as passed by the House.

Mr. OLDFIELD. I saw in the papers where you were reported as having stated an estimate.

Mr. McCoy. I also saw it, but it was without any basis.

Mr. OLDFIELD. You do not have any idea of what it will bring in?

Mr. McCoy. Around \$450,000,000.

Mr. BACHARACH. That is, you are assuming the same business conditions.

Mr. McCoy. I am assuming the business conditions for next year.

Mr. BACHARACH. That they will be the same as the present year for business, or increased business?

Mr. McCoy. That depends upon the new duties.

The CHAIRMAN. Gentlemen, have you concluded the questions with the Secretary? If so, we will hear Mr. Blair, who is here.

HON. DAVID H. BLAIR, COMMISSIONER OF INTERNAL REVENUE.

Mr. BLAIR. Some weeks ago a bill was introduced in the House and, I think; perhaps, in the Senate, to increase the number of collection districts. At the present time there are only 64 collectors and 64 collection districts in the United States. That was under the law that was passed in 1914. Since that date the amount of revenue collected in the United States has increased from \$344,000,000 to \$5,400,000,000. The number of returns filed in the collectors' offices has increased during the last 10 years from 600,000 to 9,000,000, but the number of transactions with collectors has increased very much more than that, because prior to 1914 each taxpayer had practically one transaction with the collector during the year. Now, taxes are paid in four installments, and certain taxes are returned every month, so that it is estimated that there are at present at least 18,000,000 transactions with collectors, and the number of offices has not increased at all. If the tax on automobiles should be put on, there would be probably 8,000,000 more transactions. The experience with the collectors' offices is that the smaller offices are more accurately kept. They afford better accommodations to taxpayers.

We believe that there ought to be a little decentralization, that if certain matters could be entirely concluded in the collectors' offices, instead of in the Washington office, that it would meet the approval of the taxpayers and would facilitate business very much. We have asked that the number of collection districts be increased from 64 to 74. You take New York, for example. There is an enormous amount of business done in that office. There is too much business done there for it to be done satisfactorily either to the Government or to the taxpayer, and the result is in that, and in practically all of the immense larger offices, that they are out of balance.

Mr. YOUNG. You have more than one district in the State of New York now?

Mr. BLAIR. Yes, sir; we have five districts in New York and need another in New York City.

Mr. CHANDLER. How about the number of employees now? Have they been increased greatly?

Mr. BLAIR. They have been increased, yes; but if you increased the number of offices it would not increase the number of employees to a very large extent. Mr. Frazier has an estimate of all these figures and will answer any question about the increases from putting in additional offices. In putting them in we would reduce the number of employees in some of the very large offices. The location of the new offices would be more convenient to the taxpayers.

Mr. CHANDLER. Did I understand you to say that a great many of these offices are out of balance?

Mr. BLAIR. Yes, sir; some of them are badly conducted.

Mr. CHANDLER. Did you ever try changing them and trying to get competent men?

Mr. BLAIR. Yes, sir; we are trying to make changes now and doing it as rapidly as we can. We have made changes in three offices that I have in mind within the last month, and, in fact, we have changed most of the collectors' offices within the last few weeks. But there is an understanding in some of the States—collectors are appointed at the will of the President—but there is a practice in some of the States that the man shall fill out a full four years' term, and where that courtesy was extended to the Republican administration eight years ago the policy is to extend it to the Democratic administration now.

Mr. CHANDLER. Although he is incompetent and has his books out of balance?

Mr. BLAIR. No; if his books are so badly kept, we try to get them out as quickly as we can and have recently made changes in some of the worst offices, the most poorly conducted offices of the country.

Mr. CHANDLER. What offices are they?

Mr. BLAIR. I say in some of the most poorly conducted offices changes have been made.

Mr. FREAR. You suggested that an increase in the tax on automobiles would also necessitate additional work. That does not necessarily follow.

Mr. BLAIR. I do not know—if that requires a separate return.

Mr. FREAR. But would it?

Mr. BLAIR. I do not know. It depends on how the matter is arranged. It might do it and it might not.

Mr. FREAR. I can see how shifting from one revenue system to another would increase the work.

Mr. BLAIR. Yes, sir.

Mr. TREADWAY. Would you feel disposed to offer any suggestions of the simplification of returns?

Mr. BLAIR. Of course, it is important to make the returns as simple as possible. I think it would be unfortunate to change so that one man who is engaged in several different kinds of business would have to make several returns. I think it better to have the more complicated returns than to have one individual file several returns.

Mr. BACHARACH. How many additional offices do you recommend?

Mr. BLAIR. We have recommended 10. It would not be our purpose to establish 10 additional offices now. We would begin and establish them where we believe they are needed the most.

Mr. BACHARACH. Would you have them in buildings owned by the Government or would it be necessary to go out and rent quarters?

Mr. BLAIR. In some instances, at the points where offices are needed the Government has buildings, and, of course, in all cases of that kind, we would use the Government buildings. In New York City I understand we would have to rent space, but in the majority of the cases the Government has buildings at the places where additional offices would be established.

Mr. BACHARACH. Why are you bringing this matter up here?

Mr. BLAIR. The reason I bring it up here is that if it is done I think it ought to be done promptly, and I have simply wanted to ask this committee to attach a rider to the revenue bill because if it takes any other course it will probably be several months in getting out a bill. That is the only purpose in bringing it up here.

The CHAIRMAN. You made the request some time ago and I laid it before the committee, but at that time we were absorbed in the preparation of a tariff bill, and it was suggested that we lay it aside until we got the tariff bill out of the way, which has been accomplished, so far as the House is concerned.

Mr. BLAIR. Yes, sir.

The CHAIRMAN. And now we consider it in connection with making up a revised internal revenue bill.

Mr. BLAIR. That is all, and that is my reason for bringing it here to-day.

The CHAIRMAN. We could make it a special act.

Mr. GARNER. Why did not the Senate favorably consider your suggestion? Why didn't they report the bill in the Senate?

Mr. BLAIR. They told me they thought it would be passed by unanimous consent, but one man objected to it, and it could not pass except by unanimous consent.

Mr. GARNER. I think you will find there will be more than one objection in the Senate from some conversation I had there.

Mr. BLAIR. I only heard of one.

Mr. HAWLEY. How much additional expense will there be for the 10 additional offices?

Mr. BLAIR. For the 10 additional offices, the additional cost of equipment and everything the first year will be between \$400,000 and \$500,000. We believe that as a result of that expenditure that we would soon be enabled to bring the work current, bring it up to date,

collect back taxes that ought to be collected now, and that the Government would eventually be the gainer by the proposition in dollars and cents as well as the convenience to the taxpayers.

Mr. YOUNG. Would you mind telling us whether you are gaining on these back taxes or losing, if anything?

Mr. BLAIR. We are not gaining.

Mr. YOUNG. The older these things get the harder to audit and the more time it takes and the more money to have the auditing done.

Mr. BLAIR. That is true. More than that, there is another serious question. The 1917 returns are not finished yet. Many of the concerns that made these returns then owe us additional taxes now and may be in bankruptcy next year and we may not be able to collect the taxes.

Mr. GARNER. The way they are going into bankruptcy now it is true, with the conditions that exist now.

Mr. HAWLEY. It is a hang-over from the former administration.

Mr. GARNER. At any rate, they are failing fast. Why is it that you say you are going backward instead of forward? Haven't you sufficient money to transact this business?

Mr. BLAIR. I did not say we are going backward. We are perhaps holding our own.

Mr. GARNER. Why are you not gaining? Did not Congress give you all the money you asked?

Mr. BLAIR. No, sir.

Mr. GARNER. Is that the reason?

Mr. BLAIR. That is one reason.

Mr. GARNER. I wonder why this Congress did not give you the amount of money you needed to transact business.

The CHAIRMAN. Because the Democrats did not leave it there, and we have to collect it first, but as soon as we provide for it—but we have a bankrupt Treasury Department left by the Democratic Party.

Mr. GARNER. As a Member of Congress, I want to give you the money necessary to transact the business of the Treasury. I am just wondering why it is that the Appropriations Committee, after hearing your statement, did not give you sufficient money to transact the business of your department.

Mr. BLAIR. I think that is pending now. I do not think they quite understand the immense amount of work that is to be done. We are auditing 1917 and 1918 returns now.

Mr. CHANDLER. Is it not because of the complicated returns made, which nobody can understand? Nobody can understand them except the expert, and the experts do not agree on them.

Mr. BLAIR. It is partly due to that.

Mr. CHANDLER. Would not the entire trouble be remedied if you had simplified returns, so that people could make out the returns so that you could audit them and keep them up to date?

Mr. BLAIR. We could audit them much more rapidly, and we will welcome the suggestions of some man who can give us that kind of a return.

Mr. CHANDLER. You had a simple return before 1916.

Mr. CAREW. Do you mean you can not have any simple return of income tax?

Mr. YOUNG. You are not responsible for the forms you are auditing now?

Mr. BLAIR. No, sir.

Mr. CHANDLER. You made the statement that the complicated return was better than the simplified return.

Mr. BLAIR. I beg your pardon; I did not.

Mr. CAREW. He said one return was better than a dozen.

Mr. BLAIR. If I made that statement, I did not intend it. What I did say was that I thought it was better not to have one man make five or six or seven returns, because that would make such a mass of business that we could not handle them; it is better to have one return than that.

Mr. CHANDLER. Why the necessity of making five or six returns?

Mr. BLAIR. Perhaps not.

Mr. CHANDLER. If one man would make a number of returns like that it would mean a lot of complications.

Mr. BLAIR. I would appreciate it very much if you could give me suggestions to simplify the returns. I want to do that and I think it ought to be done. We have men studying and thinking about it now. I promise you that we will welcome helpful suggestions.

Mr. CHANDLER. Has it not reached such a stage that a man doing business must have experts in his business to make returns?

Mr. BLAIR. No; I think not. People are beginning to understand the returns in making them out.

Mr. CHANDLER. That is not my experience.

The CHAIRMAN. The money you are trying to collect and hope to collect a greater percentage than under present conditions is estimated here for the fiscal year 1923 at \$335,000,000 of back taxes.

Mr. BLAIR. Yes, sir.

The CHAIRMAN. Those 10 additional offices would greatly facilitate the work?

Mr. BLAIR. They would greatly facilitate the conclusion of that work. We audit the 1040-a returns in the collector's office.

Mr. GARNER. I saw an estimate of probably a billion dollars due the Government in back taxes. Is that true?

Mr. BLAIR. I have no doubt there is probably more than that.

Mr. GARNER. If Congress gave you five or ten million dollars more for this fiscal year—

Mr. BLAIR (interposing). \$8,000,000 is what we want.

Mr. GARNER. If they gave you \$8,000,000 additional as you request, how much more would you collect for this fiscal year?

Mr. BLAIR. \$200,000,000. I believe that within those limits we can collect for every dollar we spend—I am stating it on the safe side—\$100, for every additional dollar they give us. We need not only additional men, but we need additional space. We are doing business now in seven additional buildings and we are doing it at a great loss of time.

Mr. OLDFIELD. Here at Washington?

Mr. BLAIR. Yes, sir. We have no building large enough. We are hampered for space. We have three men at a desk, and the result is we can not get production. If we were working under proper conditions, conditions that the law would require in a manufacturing plant, then we could get production and we could get 33½ per cent

more production with the same force, if you provide us with better and larger housing conditions.

Mr. GREEN. That belongs to another committee.

Mr. BLAIR. I do not think that matter is properly here. The question was asked.

Mr. GARNER. It is a very proper question here, Mr. Green, if we are seeking revenue for the fiscal year 1922. If by appropriating an additional \$8,000,000 a year we will get \$200,000,000 more revenue, it is a very important matter. That is what we are trying to do now, secure revenue for 1922, and this gentleman just stated that if you gave him \$8,000,000 he will bring into the Treasury with that \$200,000,000 additional.

Mr. GREEN. This committee is not an appropriating committee.

Mr. GARNER. Put it in the rule that provides for the consideration of this bill.

Mr. GREEN. We will not nullify our proceedings in that way. Now, Mr. Blair, let us get to something that has relation to what is before this committee. Your returns are back, we will say to 1917.

Mr. BLAIR. We have not finished the 1917 returns.

Mr. GREEN. So I understood some time ago. If, however, the Senate had passed a bill that we put through two years ago, bearing on these matters, they would have been settled by this time, but they did not see fit to do so. If we should repeal the excess profits tax, will not that greatly simplify your labors?

Mr. BLAIR. It will. It will simplify the tax returns for next year, but we have still the 1917 and 1918 and practically all of the 1919 and 1920 returns to catch up with. That will simplify the work of the future unquestionably.

Mr. GREEN. There are some of these matters that you have in your office that I think will be adjusted in one or two ways, either by a law suit or making a compromise between the Government and the parties. Is there not quite a portion of them that will have to be disposed of in that way?

Mr. BLAIR. I think a great many of them could best be disposed of in that way and most quickly and advantageously to the Government.

Mr. GREEN. By agreeing to some compromise?

Mr. BLAIR. A proper basis of settlement.

Mr. GREEN. The trouble now is that the department can not do that because it can not make a final settlement.

Mr. BLAIR. No, sir; it has no authority.

Mr. GREEN. We could provide in our bill for some way.

Mr. CHANDLER. You are in favor of that?

Mr. BLAIR. I think that would facilitate the department a great deal.

Mr. GREEN. A general disposition of these matters would bring in considerable money to the Government.

Mr. BLAIR. It would bring these old matters up.

The CHAIRMAN. That can be done by inserting a paragraph in this bill.

Mr. CHANDLER. What is the trouble with the returns that you need a special law to settle them? What kind of cases are they where these parties owe the Government a certain amount of tax?

Mr. BLAIR. There are a great many cases in which the taxpayers owe the Government, and then others in which the taxpayer has made a mistake and the Government owes the taxpayer, and, as you say, they do not understand the returns and did not know about invested capital and things of that kind. I think we could get probably a fair adjustment in a great many of these old returns from concerns that wanted to close out and can not sell because the tax matters are still pending. In many instances the people would be willing to pay, and while we do not want to collect more than they owe, they are willing to pay more than they owe in order to get the matter concluded.

Mr. YOUNG. You can give them a receipt in full.

Mr. BLAIR. Yes, sir. They want the thing terminated, and finally terminated.

Mr. CHANDLER. If your returns were all right and not so complicated and a man made out his return properly, is there not a way you can decide as to whether or not he owes the Government?

Mr. BLAIR. If our returns were simple, we could do that; an auditor could go over it and if he is owing bring in his return and it could be terminated.

Mr. CHANDLER. There is nothing to compromise; if he owes so much taxes he should pay, and if he does not owe he should not pay.

Mr. BLAIR. Absolutely nothing, if he has made the return.

Mr. GREEN. These legal matters are not so simple and even the Supreme Court is divided about what a taxpayer should pay.

Mr. HAWLEY. Is there not a legitimate difference of opinion about what constitutes deductions?

Mr. BLAIR. Yes, sir; and what constitutes invested capital and things of that kind. It takes a highly technical man to decide these matters and there is a great difference of opinion even then. Take coal mine depletion—how much is a man entitled to for depletion?

Mr. HAWLEY. Or an oil mine.

Mr. BLAIR. It makes no difference how simple your return is in cases of that kind; it is difficult to get at what is right between the Government and the taxpayer.

Mr. OLDFIELD. Don't you think that depletion clause in the present law with regard to oil wells ought to be repealed?

Mr. BLAIR. I do not know.

The CHAIRMAN. Would you be kind enough to have your man there tell us somewhat in detail how this \$400,000 would be applied in the creation of additional offices?

Mr. BLAIR. Yes.

Mr. CRISP. Mr. Commissioner, I have heard it said that one of the causes of the delay in passing on these returns was the fact that a number of gentlemen employed in the bureau—and I am not criticising at all—become familiar with the work and they are offered so much larger salaries in outside employment by corporations, or they can make so much more by practicing law, that they resign and leave the Government service. What do you think of a provision being enacted into law that provides that anyone who has left the Government service can not be permitted to practice before that bureau—the Internal Revenue Bureau—within a period of two or three years after he has severed his connection?

Mr. BLAIR. There is a law or a rule of the department—Dr. Adams can tell us which—that prevents a man from appearing in any cases which in any way came before him while he was in the department. Is that an act of Congress or is it just a rule of the department?

Mr. ADAMS. That is an act of Congress, but there is no penalty attached.

Mr. FREAR. That is a matter of plain ethics.

Mr. BLAIR. It is a matter of ethics.

Mr. CHANDLER. Is it not a fact that these men quit not to practice law before the department, but to enter the employment of some individual or corporation on account of these complicated returns it is necessary to file and that they hire these high-priced men to keep from going to the penitentiary?

Mr. BLAIR. In many instances that is true.

Mr. CHANDLER. They are not practicing before your department, but working for some individual or corporation away off from Washington?

Mr. BLAIR. A great deal of both.

FRANK E. FRAZIER, SUPERVISOR OF COLLECTORS' OFFICES, BUREAU OF INTERNAL REVENUE.

Mr. FRAZIER. I will hand around to each member a map that shows the present outline of the 64 districts. It is proposed that if Congress gives us the authority for the establishment of the 10 additional districts that they would probably be made up out of the following 15 districts. You will find that the map shows the present boundaries. Taking them alphabetically, in Illinois we probably would put in a district with headquarters at Peoria, where we formerly had a district. Illinois has now two districts—northern district, with headquarters at Chicago, and the southern district, with headquarters at Springfield. The Chicago district is the second largest in the United States.

We would consider putting in 10 out of the 15 I am naming. Indiana has but one district now. If we put in one additional in Indiana, the headquarters would probably be located at South Bend. Indianapolis, the headquarters of the present district of Indiana, would be the headquarters office for southern Indiana.

If we put one in in Iowa, it would probably be at Des Moines.

In Kentucky, which at one time had five districts, we would consider putting in an additional district with headquarters at Lexington, which is the business center of the eastern half of the State.

For Maryland we would consider an additional district with headquarters at Washington, D. C. This would cover the District of Columbia. Washington is the largest city in the United States that does not have a collector's office. I think it would be wise to have an office here. We have a branch office of the Maryland division here, with a deputy collector in charge of it, but the returns are on file in Maryland, and if a taxpayer desires to see any papers he has filed, unless it is the day he has filed them, he must go to Baltimore.

Massachusetts now has one district, and it is the third largest in the United States at present. The collector's office is located in Boston, and we would consider putting one in at Springfield, making an eastern and a western district.

In New York, where we have five districts, that on the island of Manhattan being the largest in the United States, we would probably put in an additional district in Manhattan. There was one there until two years ago. The second district has had a hard time accommodating the public, because of the immense number of taxpayers who feel that they must come to the headquarters of the district at the customhouse. We would also consider making a separate district in the Bronx, which has 2,000,000 population, and which is now a part of the fourteenth (Albany) district.

In North Carolina we would consider having an east and west district as we had up two years ago, with, possibly, headquarters at Winston-Salem, which is the largest tobacco and cigarette manufacturing center in the world.

In Oklahoma we would consider an additional office at Tulsa. Oklahoma has one district now.

In Pennsylvania we would consider reestablishing the old Lancaster district, but with headquarters at Harrisburg instead of Lancaster, Harrisburg being the capital and a railroad center. The Philadelphia district is the fourth largest in the United States. We have three districts in the State—Philadelphia, Pittsburgh, and Scranton. The Philadelphia office is cramped, being quartered in the old Federal building at Ninth and Chestnut Streets, and they have such a large city to contend with that they do not accommodate the public to the extent that I think they should.

We have had some trouble in the larger cities because of the great accumulation of work at one time of the year, in keeping the accounts in proper shape. In the last two years I know that one collector has been dropped and one chief deputy collector dropped because of their failure to meet in a satisfactory way the problems growing out of that condition. The conditions have been improving. Our smaller districts are as a rule much better conducted than the larger ones.

In Tennessee we would consider an additional district at Memphis, as headquarters.

In Virginia we would consider reestablishing the Roanoke district, which was discontinued July 1 a year ago.

In the State of Washington we would consider Spokane, which is a center for eastern Washington and 314 miles from Tacoma, the present headquarters.

We would consider establishing a district in Wisconsin, which formerly had two districts, with headquarters at Madison and Milwaukee, respectively.

Those are the 15 that I think would be the ones from which the 10 would be selected. It looks like we would not go beyond that list.

Mr. YOUNG. You are not asking for 15?

Mr. FRAZIER. No, sir; we are asking for 10.

Mr. GREEN. In North Carolina the collections are not so large as in other States that have only one?

Mr. BLAIR. During the fiscal year ended June 30, 1921, the total internal-revenue collections in the State of North Carolina were \$124,000,000. This is the tenth largest district in receipts in the United States. More than half of this was collected from taxpayers in the city of Winston-Salem, and there is no collector's office there. They have ample space in a Federal building for the collector's office, and there ought to be one there.

Mr. FREAR. A provision of law that gives additional districts is not effective until the presidential order follows; that is, it is in the hands of the executive department.

Mr. BLAIR. The law would simply provide that after such a date the number of collection districts and number of collectors shall be 74; it now says 64.

Mr. GARNER. It says at the present time not exceeding 64.

Mr. BLAIR. Not exceeding 64.

Mr. GREEN. I have in mind more particularly the income tax and excess-profits tax. The collection of back taxes is not attended with any great difficulties, is it?

Mr. BLAIR. They have a great deal of complaint about getting stamps and things of that kind, with an office located so far away.

Mr. FRAZIER. We have two bureau representatives in North Carolina now trying to arrange for the handling of the stamp situation. Because of the requisitions going around through the headquarters office there is considerable delay. Winston-Salem is the biggest cigarette manufacturing center in the world. North Carolina and Kentucky are two States which have unit values larger than in other States that have a like number of income-tax returns. The miscellaneous work of these two States is greater in proportion to the number of income-tax returns than any other two States in the United States. The first column in the last statement sent around the table shows the unit value for each collection office. That is based on the number and importance of the various returns and transactions in each collection district.

The CHAIRMAN. You may hand the date to the reporter as a part of your statement.

(The statements referred to are as follows:)

INTERNAL-REVENUE COLLECTION DISTRICTS.

The present number of internal-revenue collection districts is limited by law to 64. This number was fixed by the act of July 16, 1914 (38 Stat., 454, 475).

Subject to additional districts created on admission of new States, the changes in the maximum number of districts authorized since the passage of the internal-revenue act of 1862 follows:

1862.....	185	1883.....	83
1871.....	241	1887.....	63
1876.....	131	1914.....	64
1877.....	126		

The changes in the number of districts actually created follow:

1862.....	185	1876-77.....	165
1862-63.....	187	1877-1884.....	126
1863-64.....	185	1884-1887.....	85
1864-65.....	213	1887-1898.....	63
1865-66.....	220	1899-1900.....	64
1866-18'8.....	240	1901-2.....	65
18'8-1871.....	241	1902-1907.....	66
1871-72.....	234	1907-1909.....	65
1872-73.....	229	1909-10.....	66
1873-74.....	228	1910-1913.....	67
1874-75.....	222	1913-1921.....	64
1875-76.....	213		

You will find attached as Exhibit 1, a copy of an abstract from a monograph prepared by the Institute for Government Research which outlines in detail the various changes made from 1862 to date.

Since the passage of the revenue acts of 1913, 1916, 1917, and 1918, and the adoption of the eighteenth amendment to the Constitution, the work, service, and needs of the Internal-Revenue Service have been entirely transformed.

In less than 10 years, the number of taxpayers filing returns with collectors of internal revenue has increased from less than 600,000 to an aggregate of approximately 9,000,000 annually.

Practically all of the 600,000 taxpayers dealt with collectors of internal revenue but once each year. With monthly returns required of sales taxpayers and quarterly payments permitted to those filing income-tax returns, the 9,000,000 persons filing returns during 1920 had a total of more than 15,000,000 separate transactions with collectors of internal revenue during that year.

The increase during the last 10 years in the number of taxpayers filing returns in the various collectors' offices is indicated as follows:

	1910	1920
List returns:		
Income tax.....	270,202	6,861,725
Sales tax (monthly).....		371,045
Capital-stock tax.....		319,628
Estate tax.....		11,228
Others.....		322,519
Special tax returns.....	305,391	975,971
Total.....	575,593	8,862,116

Inasmuch as sales tax returns are filed monthly this would add a total of 4,081,493 returns of this class which are filed during the remaining 11 months of the year.

During the year 1920 the payment of the tax on more than 1,000,000 income tax returns was made in quarterly installments. This would add over 3,000,000 additional tax payments to the total transactions heretofore indicated for the year 1920. The total number of transactions in connection with the tax returns filed would then be in excess of 16,000,000.

This number will be still further increased during the present calendar year by virtue of an approximate increase of more than 2,000,000 in the number of income tax returns filed.

This remarkable increase in the number of people who have transactions with collectors' offices makes it vitally important that collectors' offices be established so as to be readily accessible to the great body of the taxpaying public. The resultant increase in the work at some of the larger offices presents serious accounting difficulties which make it appear desirable to reduce the volume of work in the larger offices by the creation of additional collection districts.

In determining what additional districts are to be created, three important factors should be given consideration, namely: (1) Volume of work; (2) geographical conditions; (3) judicial district boundary lines.

Volume of work.—The volume of work in collectors' offices is determined by the bureau by means of a system of unit values. Unit values are assigned to each class of returns filed and the number of returns filed are multiplied in each case by the unit values assigned to the particular class of returns. The volume of work is therefore reflected by the total number of unit values for all classes of returns.

There is attached as Exhibit 2, a copy of the work sheet indicating the unit values assigned to a particular class of returns. There is also attached as Exhibit 3, a list of collection districts arranged in accordance with the number of unit values shown by this method for the calendar year 1920.

Geographical conditions.—Consideration should also be given to geographical conditions in districts where large centers of population are situated at a considerable distance from existing collectors' offices.

Judicial district boundary lines.—The boundary lines of collection districts should be so fixed that in so far as possible the territory in each collection district is located within one judicial district. This is an important requirement in connection with the handling of law cases arising out of the enforcement of the various internal-revenue laws.

Careful consideration of the needs of the service indicates that at least 10 additional collection districts should be provided for at once. In the event that the increase meets with the approval of Congress, the 10 additional collection districts would be selected from the following suggested 15 additional districts, which are listed alphabetically by States:

State.	Additional collector's office at—	Created from district with collector's office.
Illinois.....	Peoria.....	Chicago (first Illinois district); Springfield (eighth Illinois district).
Indiana.....	South Bend.....	Indianapolis.
Iowa.....	Des Moines.....	Dubuque.
Kentucky.....	Lexington.....	Louisville.
Maryland.....	Washington, D. C.....	Baltimore.
Massachusetts.....	Springfield.....	Boston.
New York.....	New York City (Upper Manhattan).	New York City (second New York district).
Do.....	New York City (Bronx).	Albany (fourteenth New York district).
North Carolina.....	Winston-Salem.....	Raleigh.
Oklahoma.....	Tulsa.....	Oklahoma City.
Pennsylvania.....	Harrisburg.....	Philadelphia (first Pennsylvania district); Pittsburgh (twenty-third Pennsylvania district); Scranton (twelfth Pennsylvania district).
Tennessee.....	Memphis.....	Nashville.
Virginia.....	Roanoke.....	Richmond.
Washington.....	Spokane.....	Tacoma.
Wisconsin.....	Madison.....	Milwaukee.

SECOND ILLINOIS DISTRICT—COLLECTOR'S OFFICE AT PEORIA.

Peoria is the second largest city in Illinois, with a population of 76,121. The office of the collector of the fifth internal-revenue district was formerly located at Peoria, the fifth (Peoria) district being consolidated with the first (Chicago) Illinois district on August 1, 1919. Peoria is situated 154 miles from the collector's office at Chicago.

In the event an additional district is created with the collector's office at Peoria, the volume of work at the collector's office at Chicago, which is now the second largest in the country, would be reduced.

Peoria is the center of the distilling industry in the first (Chicago) Illinois district and Pekin, but 10 miles from Peoria, is the center of the distilling industry in the eighth (Springfield) Illinois district. Taken together they comprise the most important distilling center in the United States, and both cities should be included within the collection district with the collector's office at Peoria.

In the event that an additional collection district is created with the collector's office at Peoria, the district should be comprised of all counties tributary to Peoria which are included within the southern Illinois judicial district. The Illinois collection districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1920).
First Illinois.....	Chicago.....	<i>Square miles.</i> 10, 899	3, 824, 178	355, 250
Second Illinois.....	Peoria.....	14, 302	804, 332	68, 577
Eighth Illinois.....	Springfield.....	30, 842	1, 856, 770	92, 665
Total.....		56, 043	6, 485, 280	516, 492

SECOND INDIANA DISTRICT—COLLECTOR'S OFFICE, SOUTH BEND.

The present district of Indiana, which comprises the entire State of Indiana, is the twelfth largest district in volume of work in the United States.

Forty per cent of the income-tax returns filed in the State of Indiana are filed in the territory included within the northern third of the State.

South Bend has a population of 70,983, and is the most centrally located important city in the northern end of the State. It is situated 144 miles from the collector's office at Indianapolis.

In the event that an additional collection district is created in the State of Indiana, the counties which are more tributary to South Bend than Indianapolis should be included in the new district. The two Indiana districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1920).
		<i>Square miles.</i>		
First Indiana.....	Indianapolis.....	24, 896	2, 019, 953	81, 920
Second Indiana.....	South Bend.....	11, 149	910, 437	49, 898
Total.....	.....	36, 045	2, 930, 390	131, 818

SECOND IOWA DISTRICT—COLLECTOR'S OFFICE AT DES MOINES.

The present district of Iowa comprises the entire State of Iowa and is the tenth largest district in volume of work in the United States.

Des Moines with a population of 61,468, is the largest city in the State and is situated 199 miles from the collector's office at Dubuque.

In the event an additional district is created with the collector's office at Des Moines, the territory included within the southern Iowa judicial district should comprise the second Iowa collection district, with the collector's office at Des Moines. The two Iowa districts would then compare substantially as follows:

District.	Collector's office.	Population.	Individual income tax returns (1920).
First Iowa.....	Dubuque.....	1, 244, 224	61, 415
Second Iowa.....	Des Moines.....	1, 156, 797	69, 700
Total.....	.....	2, 404, 021	131, 115

SECOND KENTUCKY DISTRICT—COLLECTOR'S OFFICE AT LEXINGTON.

The present district of Kentucky is comprised of the entire State of Kentucky. Prior to August 1, 1919, there were five internal-revenue collection districts in the State of Kentucky.

Lexington, with a population of 41,534, is the business center of the eastern half of Kentucky. It is situated 94 miles from the collector's office at Louisville.

The importance of the distilling and tobacco industry in the State makes it desirable that a collector's office be located in the eastern part of the State.

In the event an additional collection district is created in the State of Kentucky, with the collector's office at Lexington, the territory included within the eastern judicial district should comprise an additional collection district. The two Kentucky collection districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1920).
		<i>Square miles.</i>		
First Kentucky.....	Louisville.....	19, 758	1, 190, 247	31, 604
Second Kentucky.....	Lexington.....	20, 423	1, 226, 383	31, 188
Total.....	.....	40, 181	2, 416, 630	62, 790

DISTRICT OF COLUMBIA—COLLECTOR'S OFFICE AT WASHINGTON, D. C.

The present district of Maryland is comprised of the State of Maryland and the District of Columbia. It is the fourteenth largest district in the United States in the volume of work at the collector's office.

Washington is the largest city in the United States which does not have a collector's office, the present population being 437,571. Washington ranks fourth among the cities of the United States in the number of individual income tax returns filed, the total returns filed during 1920 being 91,940. This is 55 per cent of the total number of returns filed in the present district of Maryland.

It is especially important that there be a collector's office located at the National Capital so that all internal revenue transactions may be completed. It is also important that there be readily at hand an office which could be used as a laboratory in testing out the many changes and improvements which are constantly necessary to improve the efficiency of collector's offices.

Should a separate collection district be created for the District of Columbia, the new district and the remainder of the District of Maryland would compare substantially as follows:

District.	Popu- lation.	Indi- vidual income- tax returns (1920).
District of Columbia.....	437,571	91,940
Maryland.....	1,449,661	82,902
Total.....	1,887,232	174,842

SECOND MASSACHUSETTS DISTRICT—COLLECTOR'S OFFICE AT SPRINGFIELD.

The present district of Massachusetts comprises the entire State of Massachusetts. This is the third largest district in the United States in volume of work at the collector's office.

Springfield, with a population of 129,614, is the business center of the western part of the State and is situated 100 miles from the collector's office at Boston.

In the event an additional collection district is created for the western part of the State, the counties of Berkshire, Franklin, Hampden, Hampshire, and Worcester should comprise the new district, with the collector's office at Springfield. The two Massachusetts districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1920).
		<i>Square miles.</i>		
First Massachusetts.....	Boston.....	3,569	2,864,923	232,808
Second Massachusetts.....	Springfield.....	4,470	987,433	65,695
Total.....		8,039	3,852,356	298,503

THIRD NEW YORK DISTRICT—COLLECTOR'S OFFICE IN UPPER MANHATTAN.

The present second New York district is comprised of the county of New York, i. e., the island of Manhattan. It is the largest district in the United States in volume of work required of the collector's office, which is now located in the customhouse at the lower end of Manhattan.

The county of New York formerly had two collection districts, the third district being combined with the second on February 1, 1920. In the event that additional districts are provided for, an additional collection district should be created for the northern part of New York County.

FOURTH NEW YORK DISTRICT—COLLECTOR'S OFFICE IN BRONX COUNTY, NEW YORK CITY.

Bronx County and the suburbs within a radius of 15 miles have a population in excess of 1,000,000. This territory is now included within the fourteenth New York collection district with the collector's office at Albany, 140 miles distant.

In the event that an additional district is created with the collector's office at the Bronx, the counties of Bronx, Columbia, Dutchess, Greene, Orange, Sullivan, Ulster, and Westchester, which now comprise the southern judicial district of New York, should be included in the additional district. The two districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1920).
Fourth New York.....	Bronx.....	<i>Square miles.</i> 5,974	1,517,261	74,440
Fourteenth New York.....	Albany.....	10,073	749,085	40,305
Total.....		16,047	2,266,346	114,745

SECOND NORTH CAROLINA DISTRICT—COLLECTOR'S OFFICE AT WINTON-SALEM.

The present North Carolina district is comprised of the entire State of North Carolina. Winton-Salem is the largest city in the State with a population of 48,395. It is situated 110 miles from the collector's office at Raleigh.

Winton-Salem is the largest cigarette manufacturing center in the world. Cigarette manufacturers located there now purchase internal-revenue stamps in excess of \$60,000,000 annually.

In the event that an additional collection district is created, the territory included in the western North Carolina judicial district should comprise the second collection district with the collector's office at Winton-Salem. The two North Carolina districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1920).
First North Carolina.....	Raleigh.....	<i>Square miles.</i> 27,321	1,279,649	21,534
Second North Carolina.....	Winston-Salem.....	21,419	1,279,474	19,489
Total.....		48,740	2,559,123	41,023

SECOND OKLAHOMA DISTRICT—COLLECTOR'S OFFICE AT TULSA.

The present district of Oklahoma is comprised of the entire State of Oklahoma.

Tulsa, with a population of 72,075, is the second largest city and is the business center of the eastern part of the State. It is also the most important oil center in Oklahoma, and is situated 182 miles from Oklahoma City, the present collector's office.

In the event that an additional collection district is created, all the counties included within the eastern judicial district should comprise the additional collection district. The two collection districts would then compare substantially as follows:

District.	Collector's office.	Population.	Individual income tax returns (1919)
First Oklahoma.....	Oklahoma City.....	849,745	29,173
Second Oklahoma.....	Tulsa.....	1,178,538	32,814
Total.....		2,028,283	61,987

SECOND PENNSYLVANIA DISTRICT—COLLECTOR'S OFFICE AT HARRISBURG.

The State of Pennsylvania is now divided into three collection districts with collectors' offices at Philadelphia, Pittsburgh, and Scranton.

The first Pennsylvania district, with collector's office at Philadelphia, is the fourth largest collection district in the United States in the volume of work required of the collector's office.

Harrisburg, the capital of the State, has a population of 75,917. It is situated 84 miles from the collector's office at Philadelphia.

In the event that an additional collection district is created, with the collector's office at Harrisburg, the counties now included in the middle Pennsylvania judicial district should comprise the second internal-revenue collection district. This would materially reduce the volume of work in the collector's office at Philadelphia.

The four collection districts in Pennsylvania would then compare substantially as follows:

District.	Collector's office.	Population.	Individual income tax returns (1919).
First Pennsylvania.....	Philadelphia.....	3,134,275	209,741
Second Pennsylvania.....	Harrisburg.....	1,029,069	39,180
Twelfth Pennsylvania.....	Scranton.....	1,111,820	45,847
Twenty-third Pennsylvania.....	Pittsburgh.....	3,444,853	282,825
Total.....		8,720,017	577,593

SECOND TENNESSEE DISTRICT—COLLECTOR'S OFFICE AT MEMPHIS.

The present district of Tennessee is comprised of the entire State of Tennessee. Memphis is the largest city in the State with a population of 163,351, and is situated 219 miles from Nashville, the present collector's office.

With an average of 900 sales monthly, the stamp office now located at Memphis does the tenth largest business of the 98 stamp offices now authorized in the United States.

In the event that an additional collection district is created, the counties which now comprise the western judicial district of Tennessee should constitute an additional internal-revenue collection district with the collector's office at Memphis. The two Tennessee districts would then compare substantially as follows:

District.	Collector's office.	Population.	Individual income tax returns (1919).
First Tennessee.....	Nashville.....	1,635,333	32,329
Second Tennessee.....	Memphis.....	702,552	18,365
Total.....		2,337,885	50,694

SECOND DISTRICT OF VIRGINIA—COLLECTOR'S OFFICE AT ROANOKE.

The present district of Virginia is comprised of the entire State of Virginia.

The sixth district of Virginia, with the collector's office at Roanoke, was consolidated with the second district and made the district of Virginia on July 1, 1920.

Roanoke has a population of 50,842, is situated 201 miles from the collector's office at Richmond, and is the business center of the western half of the State.

In the event that an additional collection district is created the counties included in the western Virginia judicial district should comprise the additional district. The two Virginia collection districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1919).
		<i>Square miles.</i>		
First Virginia.....	Richmond.....	16,734	1,204,774	44,245
Second Virginia.....	Roanoke.....	23,528	1,104,413	22,427
Total.....		40,262	2,309,187	66,672

SECOND DISTRICT OF WASHINGTON—COLLECTOR'S OFFICE AT SPOKANE.

The present district of Washington is comprised of the entire State of Washington. Spokane has a population of 104,204 and is situated 314 miles from the collector's office at Tacoma. No other city of similar size is situated so far distant from the collector's office as Spokane.

In the event that an additional collection district is created the counties included within the eastern Washington judicial district should comprise the additional collection district. The two Washington collection districts would then compare substantially as follows:

District.	Collector's office.	Area.	Population.	Individual income-tax returns (1919).
		<i>Square miles.</i>		
First Washington.....	Tacoma.....	24,531	919,430	94,028
Second Washington.....	Spokane.....	42,305	437,191	30,340
Total.....		66,836	1,356,621	124,368

SECOND WISCONSIN DISTRICT—COLLECTOR'S OFFICE AT MADISON.

The present district of Wisconsin comprises the entire State of Wisconsin. It is the eighth largest collection district in the volume of work at the collector's office, located at Milwaukee.

Madison, Wis., has a population of 38,378, is the capital city of the State, and is situated 84 miles from the collector's office at Milwaukee. The collector's office of the second Wisconsin district, which was consolidated with the first district on August 1, 1919, was located at Madison.

Madison is more accessible to 40 per cent of the population of the State than is Milwaukee.

In the event that an additional district is created, the counties which are included within the western Wisconsin judicial district should comprise the additional district.

The two Wisconsin districts would then compare substantially as follows:

District.	Collector's office.	Population.	Individual income tax returns (1919).
First Wisconsin.....	Milwaukee.....	1,440,983	99,908
Second Wisconsin.....	Madison.....	1,191,084	46,749
Total.....		2,632,067	146,657

Summary of 15 possible additional internal-revenue collection districts.

District.	Population.	Individual income tax returns (1919).	Suggested collector's office.	Population.	Miles from existing collector's office.
Illinois (second).....	804,332	68,577	Peoria.....	76,121	154
Indiana (second).....	910,437	49,898	South Bend.....	70,983	144
Iowa (second).....	1,159,797	69,700	Des Moines.....	61,468	199
Kentucky (second).....	1,226,383	31,188	Lexington.....	41,534	94
District of Columbia.....	437,571	91,940	Washington, D. C.....	437,571	40
Massachusetts (second).....	987,433	65,605	Springfield.....	129,614	100
New York (third).....	¹ 1,500,000	¹ 300,000	Upper Manhattan.....	¹ 1,500,000	5
New York (fourth).....	1,517,261	74,440	Bronx (New York City)	¹ 1,000,000	140
North Carolina (second)...	1,279,474	19,489	Winston-Salem.....	48,375	110
Oklahoma (second).....	1,178,538	32,814	Tulsa.....	72,075	182
Pennsylvania (second).....	1,029,069	39,180	Harrisburg.....	75,917	84
Tennessee (second).....	702,552	18,365	Memphis.....	168,351	219
Virginia (second).....	1,104,413	22,427	Roanoke.....	57,842	201
Washington (second).....	437,191	30,340	Spokane.....	104,204	314
Wisconsin (second).....	1,191,084	46,749	Madison.....	38,378	84

¹ Estimated.

EXHIBIT 1.

[From monograph prepared by Institute for Government Research.]

Internal-revenue collection districts — For the purpose of assessing and collecting the internal-revenue taxes prescribed in the act of July 1, 1862, the President was authorized to divide the States and Territories of the United States into convenient collection districts. At the same time the President was authorized to consolidate two or more districts into one, if at any time he should deem the procedure proper and for the good of the service.

The number of districts in any State was not to exceed the number of Representatives in Congress the State in question was entitled to, excepting California, which was allowed two extra districts because of the great distances involved in collecting the internal-revenue taxes in this State.

No effort was made during the Civil War to establish collection districts in the States in rebellion. Of the 185 original districts established in 1862, only 7 were located in the States that had broken away from the Union.¹

In the closing days of the war, however, the total number of districts was increased to 213, and for the fiscal year ending June 30, 1866, we find that the number was further increased to 220. The highest number was reached in 1868, when the total number of internal-revenue collection districts in the United States rose to 241. No change in this amount occurred until the fiscal year ending June 30, 1872, when the offices of assessor and assistant assessor were abolished and the number of districts was reduced to 234.

Four years later Congress reduced the number by statute to 131² and the following year limited the number of collection districts to 126.³ During the next few years the administration was confronted with a most unique situation. The Treasury was rapidly accumulating a surplus far beyond the requirements of the Government. For the fiscal year ending June 30, 1881, the surplus amounted to \$100,000,000,⁴ and the following year rose to \$140,000,000.⁴ President Arthur, in his message to Congress December 4, 1882, stated that "the rapid extinguishment of the national indebtedness as is now taking place is by no means a cause for congratulation; it is a cause rather for serious apprehension." Further reductions in internal-revenue taxation followed. In the early part of the second session of the Forty-seventh Congress Mr. Thompson, of Kentucky, introduced an amendment to reduce the number of internal-revenue collection districts from 126 to 46. The amendment was to be a rider on the judicial, legislative, and executive appropriation bill for that year. Mr. Cannon, of Illinois, raised a point of order, but was overruled.⁵

Mr. Bayne, of Pennsylvania, proposed an amendment to the amendment to strike out 46 and insert 75. This amendment was lost.

Later an amendment to the original amendment was offered to change the figures to 82. After a lengthy debate covering several pages of the Congressional Record, the amendment carried by a close vote. The appropriation bill with the amendment for the reduction of internal-revenue districts was sent to the Senate; from there it was sent to conference. The amendment which reduced the number of internal-revenue districts was not agreed to by this body. Mr. Cannon, who was manager for the House conferees, reported that after a full and free conference the Senate conferees refused to recede. The House conferees became satisfied that the Senate would not yield, so the House conferees agreed to the Senate's stand.

With the failure to reduce the number of districts by legislative enactment, influential people of the country, including many legislators, appealed to President Arthur to exercise his prerogative and reduce the number of districts by executive order, which authority was given him under Revised Statutes 3141. This authority does not, however, carry any power to increase the number of districts. No doubt President Arthur was very much in sympathy with the idea, because in his annual message of December 4, 1882, although he does not make mention of any recommendation regarding the reduction of internal revenue districts, he does make mention of the reduction of the number of employees and further reduction of internal-revenue taxes.

It is doubtful whether the Commissioner of Internal Revenue or the Secretary of the Treasury were in great sympathy with the contemplated move to reduce the number of districts. There is no record of any communication in the files of the Secretary's office or in the records at the executive offices of the White House. We must assume, therefore, that President Arthur in reducing the number of internal revenue

¹ The original list of districts gives Virginia 4, Tennessee 2, and Louisiana 1.

² Stat. 19, p. 152, Aug. 15, 1876.

³ Stat. 19, p. 303, Mar. 3, 1877.

⁴ See President Arthur's message to Congress, Dec. 4, 1882.

⁵ Cong. Record, House, Vol. XIV, part 3, 47th Congress, 2d session.

collection districts by Executive order, June 25, 1883, did so upon his own initiative. This assumption is somewhat substantiated by the following abstract from an editorial which appeared in the New York Tribune, Friday, June 1, 1883:

"In Washington dispatches to the Tribune, published shortly after the adjournment, the fact became known that influential Republican Senators and Representatives had advised the President to reduce the number of internal-revenue districts very considerably. Since that time the same course has been frequently urged by them upon both the President and the Secretary of the Treasury as wise and expedient."

And again, in the same periodical, on June 26, 1883, the day after the President issued the order we read, " * * * the President, after having spent many days in the consideration of the subject, issued an order reducing the number of districts to 82."

On June 30, 1883, five days after the President had issued the first Executive order, he modified the same upon recommendation of the Secretary of the Treasury, limiting the number of districts to 83, and again on October 13 and December 5, 1883, modified his previous orders, thereby limiting the number of districts to 84.

The territory of Nevada which had been consolidated with the California district in 1883 was reestablished by Executive order of February 13, 1884, thus making the total number of districts 85. In 1887 a further reduction of 22 districts was made by an Executive order issued May 21, thereby limiting the number to 63. The following editorial pertaining to the above reduction appeared in the New York Tribune May 22, 1887:

"The President issued an order to-day changing and consolidating a number of the internal-revenue districts throughout the country as follows: The State of Nevada is consolidated with the fourth district of California; the district of Rhode Island with the district of Connecticut; the second district of Illinois with the first district of Illinois; the fourth district of Illinois (except four counties which are added to the fifth district of Illinois) with the eighth district of Illinois; the eleventh district of Indiana with the sixth district of Indiana; the fourth district of Iowa with the second district of Iowa; the district of Delaware with the district of Maryland; the tenth district of Massachusetts with the third district of Massachusetts; the district of Mississippi with the district of Louisiana; the fourth district of Missouri with the first district of Missouri; the territory of Utah is added to the district of Montana; the districts of Maine and Vermont are consolidated with the district of New Hampshire; the third district of New Jersey with the fifth district of New Jersey; the fifteenth district of New York with the fourteenth district of New York; the three present districts of North Carolina are rearranged and divided, two districts to be known as the fourth and fifth districts of North Carolina; the Sixth district of Ohio is consolidated with the first district of Ohio; the counties of Blair and Huntington of the present twenty-third district of Pennsylvania and the county of Bedford of the present twenty-second district of Pennsylvania are added to the ninth district of Pennsylvania; the nineteenth district of Pennsylvania, the twenty-second district of Pennsylvania, except the county of Bedford, and the twenty-third district of Pennsylvania, except the counties of Blair and Huntington, are consolidated and made one district, to be known as the twenty-third district of Pennsylvania; the first district of Texas is consolidated with the third district of Texas; the fourth district of Virginia is consolidated with the sixth district of Virginia; the third district of Wisconsin is consolidated with the first district of Wisconsin; and the sixth district of Wisconsin is consolidated with the second district of Wisconsin.

"Under this order of reorganization twenty-two districts will be abolished and the collectors thereof retired from the service. Commissioner Miller says that the new arrangement will not in any manner interfere with the convenience of the taxpayers and will save the Government more than \$100,000 annually. It is said to be the intention to require such collectors as are now occupying rented offices to remove to Government buildings in all cases where it is practicable, and it is also probable that other changes will be made which will insure still greater economy and efficiency in the management of this branch of the Government service. The order of consolidation was carefully considered and was agreed upon by the President, the Secretary of the Treasury, and the Commissioner of Internal Revenue."

During the following 12 years the number of collection districts remained at 63 until the year 1900, when the Territory of Hawaii was constituted an internal-revenue district.¹ The creation of the district of South Dakota in 1901 increased the number to 65. In the following year the district of Washington was established, thus making a total of 66. This number remained unchanged until November 25, 1907, when the two districts in Tennessee were consolidated into one.² Two years later,³ several

¹ 31 Stat., 141, Apr. 30, 1900.

² The two districts were known as the old second and fifth.

³ July 1, 1909.

counties were detached from the first district in California and set up as the sixth California district. Oklahoma, which had been a part of the district of Kansas for many years, was detached November 25, 1910, and created a separate district. This brought the total number of collection districts up to 67, and no change occurred until 1914, when the number of districts was limited to 64 by an act of Congress.¹

Three States—Texas, Pennsylvania, and California—each lost a district through this act. Texas, which since 1887 had been divided into two districts, was allowed but one, the fourth district having been consolidated with the third. The designation of this district was changed March 1, 1920, to the district of Texas. On July 20, 1920, the State of Texas was again divided into two districts, known as the first and second districts.

Pennsylvania loses a district in 1912.—The district formerly known as the twelfth district of Pennsylvania was consolidated with the ninth district October 1, 1912. Three years later² the twelfth district was detached from the ninth and again set up as an independent district. On August 1, 1919, the ninth district of Pennsylvania was consolidated with the first district, thus again reducing the number of districts in the State to three.

California loses one district in 1912.—In order to comply with the limitations placed upon the number of collection districts allowed in the United States the Commissioner of Internal Revenue recommended the consolidation of the fourth and first districts of California, to be known as the first district. In this manner the total number of districts was reduced to 64, and since 1913 no change has taken place in the number of districts, but several important changes were made during the fiscal year 1919–20 in the designation of districts.

New districts created in 1919–20.—Twelve new collection districts were created in 1919–20 without changing the total number allowed by statute so as to provide for at least one collection district in each State. This was accomplished by reducing the number in certain States and establishing new districts in others so as to provide for the more efficient administration of the internal-revenue laws. Kentucky, which for many years contained five districts, lost four by consolidating all the districts into one, as a result of the prohibition act, and now known as the district of Kentucky. The State of Illinois lost two districts, the fifth having been consolidated with the first and the thirteenth with the eighth, thus leaving this State with two districts instead of four.

Following are the other consolidations effected at this time:

Indiana: Seventh and sixth districts consolidated into one district, now known as the district of Indiana.

New York: The third district was consolidated with the second, now known as the second district, thereby reducing the number of districts in New York from six to five.

North Carolina: Fifth district consolidated with the fourth and now designated as the district of North Carolina.

Pennsylvania: Ninth district consolidated with first district, now known as the first, thereby reducing the number of districts in Pennsylvania from four to three.

Virginia: Consolidating the sixth with second, forming one district, known as district of Virginia.

The district of Colorado, which included Wyoming, lost the latter territory, and the State of Wyoming was constituted an independent district. The other 11 new districts created at this time were the following: Arizona, Delaware, Idaho, Maine, Mississippi, Nevada, North Dakota, Rhode Island, Utah, and Vermont. The State of Texas having been consolidated from two into one district in 1912, was again divided into two districts by the change which took place in 1920 and the two districts are designated as the first and second, respectively. For a complete description of the internal-revenue collection districts as they exist to-day, together with the salary of the collector and the amount of bond required, see appendix. Also see diagram in appendix showing number of collection districts each year from 1862 to present date.

¹ 38 Stat., 454, July 16, 1914.

² May 1, 1915.

EXHIBIT 2.

Unit values, year ending Dec. 31, 1920; ——— district.

	Number returns.	Unit value.	Total unit value.
Income tax:			
Corporations (all).....			
Individual, part paid.....			
Total.....		4	
Individual, partnership and fiduciary:			
Full paid.....			
Nontaxable.....			
Total.....		1	
Capital stock tax.....		2	
Estate tax.....		10	
Sales tax.....		1	
Other list returns.....		2	
Cigar factories.....			
Tobacco factories.....			
Total.....		50	
Oleomargarine:			
Factories.....			
Wholesale dealers.....			
Total.....		100	
Narcotic registrants.....		2	
Special taxpayers (not including narcotic).....		1	
Leaf tobacco dealers.....		100	
Industrial distilleries.....		100	
Bonded wineries.....		100	
Total all unit values.....			
Office employees (permanent).....			
Average unit per employee.....			

EXHIBIT 3.

Internal-revenue collection districts, arranged in order of unit values of work.

District.	Unit value.	Income-tax returns, year ended June 30, 1921.	Sales-tax returns av- erage, filed monthly, January- June, 1921.	Special-tax returns filed, year ended Dec. 31, 1920.	Population.
New York (second) ¹	1,268,856	507,387	10,134	23,363	2,284,103
Illinois (first) ¹	1,044,525	602,714	16,575	36,517	4,289,752
Massachusetts ¹	997,290	467,418	15,466	34,617	3,852,356
Pennsylvania (first) ¹	746,664	371,293	10,306	31,686	3,952,483
Pennsylvania (twenty-third).....	642,372	412,196	9,983	18,119	3,284,539
New Jersey (fifth).....	582,294	260,816	5,441	17,919	2,347,143
Ohio (eighteenth).....	544,671	287,304	7,642	16,642	2,451,029
Wisconsin ¹	535,852	243,101	10,028	20,413	2,632,067
New York (first).....	523,678	286,047	14,465	20,606	2,840,295
Iowa ¹	489,682	204,634	11,565	21,565	2,404,021
California (first).....	483,198	240,534	9,189	19,504	2,003,075
Indiana ¹	465,755	223,227	11,141	24,740	2,930,390
Michigan (first).....	464,924	269,124	6,800	34,617	2,456,743
Maryland ¹	463,218	234,269	7,187	18,548	1,449,661
Minnesota.....	427,240	179,834	7,717	16,371	2,357,125
Texas (second).....	400,858	132,622	7,802	19,515	2,424,945
Washington ¹	371,085	168,917	7,941	11,499	1,356,621
Illinois (eighth).....	353,543	169,864	9,068	19,542	2,195,528
California (sixth).....	347,013	184,188	8,416	15,849	1,423,786
New York (fourteenth) ¹	339,720	175,157	5,512	20,604	2,266,346
New York (twenty-eighth).....	329,267	174,722	5,713	15,168	1,678,471
Connecticut.....	325,869	165,920	4,729	14,457	1,380,631
Kansas.....	296,778	125,311	7,564	15,493	1,769,257
Missouri (first).....	295,844	135,421	5,507	12,110	1,786,992

¹ Districts from which additional districts may be created.² Sales tax returns filed monthly, January-May, 1921.

Internal-revenue collection districts, arranged in order of unit values of work—Continued.

District.	Unit value.	Income-tax returns, year ended June 30, 1921.	Sales-tax returns av- erage, filed monthly, January- June, 1921.	Special-tax returns filed, year ended Dec. 31, 1920.	Population.
Texas (first).....	268,787	124,734	6,018	13,040	2,238,283
Kentucky ¹	230,071	90,396	6,192	19,393	2,116,630
Nebraska.....	251,583	111,172	5,585	12,777	1,298,372
Missouri (sixth).....	230,280	88,021	5,388	15,362	1,617,063
Virginia ¹	219,276	107,302	4,595	11,689	2,309,187
New York (twenty-first).....	216,803	116,422	4,588	15,369	1,316,012
Oklahoma ¹	241,090	89,890	5,636	18,086	2,028,283
Ohio (first).....	235,219	107,456	3,896	11,129	1,122,642
Louisiana.....	218,061	85,156	3,700	13,616	1,798,509
Colorado.....	217,276	90,306	5,377	14,865	939,629
West Virginia.....	215,995	110,652	4,837	11,226	1,463,701
Georgia.....	211,033	89,088	3,513	10,692	2,895,832
Tennessee ¹	200,001	80,531	5,447	11,172	2,337,885
North Carolina ¹	181,501	57,328	4,128	12,083	2,559,123
Oregon.....	171,448	80,489	4,060	7,676	783,389
Pennsylvania (twelfth).....	172,642	96,173	3,982	7,231	1,482,995
Michigan (fourth).....	170,058	81,615	4,295	12,312	1,211,669
Florida.....	169,777	51,696	2,983	13,216	968,470
Ohio (tenth).....	163,773	74,461	3,699	10,869	1,037,711
Ohio (eleventh).....	156,409	74,371	3,061	11,179	1,148,012
Alabama.....	153,361	61,130	3,218	10,272	2,348,174
New Jersey (first).....	152,372	70,949	2,799	11,056	808,757
Montana.....	149,529	55,381	2,628	4,759	548,869
South Carolina.....	146,800	40,937	2,429	6,935	1,683,724
Arkansas.....	140,164	46,162	3,416	10,869	1,752,204
Maine.....	129,923	52,794	3,150	11,862	768,014
South Dakota.....	123,859	39,678	2,305	5,140	636,547
Rhode Island.....	114,618	60,989	1,934	6,412	604,397
Mississippi.....	112,158	33,643	2,926	6,583	1,790,618
Utah.....	84,445	37,590	1,679	2,333	449,396
New Hampshire.....	82,601	39,708	2,004	6,958	443,083
North Dakota.....	80,464	27,375	2,256	4,191	645,680
Idaho.....	76,411	29,764	2,065	2,679	431,866
Arizona.....	62,830	25,035	1,179	3,055	333,903
Vermont.....	62,816	22,052	2,224	5,312	352,428
Wyoming.....	54,853	27,907	1,499	2,372	194,402
Delaware.....	47,024	21,022	770	2,287	223,003
Hawaii.....	39,381	18,845	1,387	2,474	255,912
New Mexico.....	38,907	15,312	996	1,844	380,350
Nevada.....	30,818	13,122	593	1,245	77,407
Total.....	18,887,743	8,746,882	338,658	845,294	105,964,683

¹ Districts from which additional districts may be created.

² Sales-tax returns average filed monthly, January-May, 1921.

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Thursday, August 4, 1921.

The committee met at 10 o'clock a.m., Hon. Joseph W. Fordney (chairman) presiding.

HON. EDGAR E. CLARK, CHAIRMAN OF THE INTERSTATE COMMERCE COMMISSION.

The CHAIRMAN. Mr. Clark, I will try to outline the reasons for requesting your presence here. We have had the Secretary of the Treasury, we have had the Director General of Railroads, and Mr. Meyer, of the War Finance Corporation, before us, and it seems that all of these different departments, together with the Interstate Commerce Commission, have something to do with the settlement of the claims of the railroads against the Government. I think Mr. Davis stated that perhaps the amount claimed by the railroads

through the Interstate Commerce Commission would either be paid by one or the other of the departments—either by the Interstate Commerce Commission or through his office. We are trying to determine just how much may be expected from the Treasury during the present fiscal year and the next fiscal year in the matter of payments to railroads, and for that reason the committee thought it wise to have you here, and it will be glad to hear anything you have to say that would give us information along those lines. Have you any other suggestions, Mr. Longworth?

Mr. LONGWORTH. I think not, Mr. Chairman, if Mr. Clark would outline just the connection between the Interstate Commerce Commission and the railroads in so far as the payment of money to the railroads is concerned.

The CHAIRMAN. Mr. Clark, how much in your opinion will the Interstate Commerce Commission be called upon to pay to the railroads during this fiscal year, and the succeeding fiscal year?

Mr. CLARK. In answering your question and considering your preliminary statement, I think perhaps it would be well for me to point out that as to one period there is an indirect connection between the commission and the director general payments, and as to another period there is no connection with the director general or the Railroad Administration. The Government guaranteed the railroads certain compensation for the use of their properties while they were under Federal control. The law requires that we shall certify to the President the so-called standard return, and that fixes the maximum which the President may agree with the carrier to pay, except that the President is authorized to add to it in individual instances because of abnormal or unusual conditions, which in his judgment justify it. The President, through the director general, negotiates with the carriers in settlements under the contracts if they were made, or without the contracts if they were not made, the certification by our commission having the effect which I have stated; and that applies only during the period within which the railroads were under Federal control.

In the transportation act the Congress provided that for a period of six months immediately following the termination of Federal control the railroads should have certain guaranties. As to those guaranties, our commission is charged with the duty of certifying to the Secretary of the Treasury the amount due each carrier, and the Secretary of the Treasury is required to pay the amount certified, and an appropriation was made in amount sufficient to pay those certifications.

Now, confining myself to the guaranty period, as to which we certify and the Secretary pays—

Mr. LONGWORTH (interposing). May I ask, Mr. Clark, what was the beginning of the guaranty period?

Mr. CLARK. March 1, 1920.

Mr. COPLEY. And it lasts how long?

Mr. CLARK. Six months. There are two guaranties; one in section 204 of the transportation act, which, concisely stated, guarantees to carriers that operated their own property against a larger deficit or against a smaller revenue than they experienced during the test period.

Mr. COPLEY. That is, the prewar period.

Mr. CLARK. That test period was the three years commencing June 30, 1914, and ending June 30, 1917. Those three years were selected as the test period, and the results from operation for those three years were averaged to give what is called the standard return, and the agreement for compensation during the period of Federal control was that for the years or months the roads were under Federal control they should have as compensation for the use of their property an amount equivalent to that average of the three years of the test period.

The amounts payable under section 204 of the transportation act are not so important; and, really, they are unimportant as compared with the amounts due under section 209, because section 204 is intended to cover roads that were not under Federal control; unimportant roads, in the main, but which might have been and perhaps were affected by the fact that their connections were under Federal control.

Of course, the amounts payable in the aggregate, and finally, under either of these guaranties are matters of estimate. We have made the most careful estimates that could be made. Under section 204, which is relatively small, the amount claimed by the railroads is—I do not suppose you want the exact figures.

The CHAIRMAN. Oh, no; just give us the amount in round numbers.

Mr. CLARK. \$13,800,000. Our estimate of the aggregate amount to be paid under that section is a little over \$11,000,000. We have certified \$2,500,000 under that section, leaving \$8,500,000 yet to be paid, if our estimate of \$11,000,000 turns out to be accurate, and it will not be far away.

Mr. FREAR. When is that to be paid?

Mr. CLARK. That will be paid from time to time as the railroads furnish the information and the evidence necessary to substantiate their claims and justify us in certifying them.

Mr. FREAR. During this coming year, probably?

Mr. CLARK. It will be going on right along from month to month.

Mr. FREAR. The reason I asked the question is because the purpose of the inquiry here is to find out what we have to anticipate.

Mr. CLARK. I should say that we might expect the major portion of it during the coming year; probably, practically all of it. Now, from that \$8,500,000 that stands yet to be paid, the estimate of our commissioner and of the director general indicates that about \$3,200,000 will be deducted for traffic balances and other indebtednesses of these railroads to the director general.

Mr. COPLEY. What do you mean by "traffic balances"?

Mr. CLARK. That means that these roads deliver a good deal more traffic than they originate. The great bulk of the traffic moves with the charges collect at destination, and these roads collect the entire charges and remit or account to the director general for the Federal-controlled road's earnings, and there are something over \$3,200,000 in round figures of such balances that have not yet been settled.

Mr. FREAR. So that at the outside the amount would not be over \$5,000,000 for that item.

Mr. CLARK. The net estimate we made of the amount payable to the carriers under that section of the transportation act is \$5,290,000.

Mr. LONGWORTH. That is under section 204.

Mr. CLARK. Yes.

The great bulk of the carriers come under the guaranty under section 209 of the transportation act. That section provided that the guaranty should not accrue to any carrier that did not on or before a fixed date, immediately following the return of the carriers to their owners, accept all of the provisions of the section.

The guaranty under that section was that the carriers accepting the provisions of the section would be guaranteed for the six months' period net railway operating income equal to the average of the same six months' period during the three years of the test period, and in the acceptance of the provisions of the section the carriers agreed that if their net railway operating income exceeded that amount the excess would revert to the Government; and the settlement, of course, was with each individual carrier and not with any group of carriers, or with them as a whole.

Practically all of the carriers accepted the terms of that section. Their claims under that section amount to \$824,500,000. Our estimate of the amount that will be paid in round figures is \$596,000,000.

Mr. FREAR. What balances are there against that, if any?

Mr. CLARK. That represents the extent to which we disallow their claims for inefficiency of labor and undermaintenance.

Mr. FREAR. Are there any companies that made more than the 5½ per cent, which would go to the credit of the Government?

Mr. CLARK. No.

Mr. LONGWORTH. How much of that has been paid, Mr. Clark?

Mr. CLARK. We have certified as advances in partial payments or final settlements, up to and including July 31, \$426,277,000.

Mr. HAWLEY. Has the Treasury paid that?

Mr. CLARK. I understand those certificates have all been paid.

Mr. COPLEY. That leaves only \$170,000,000.

Mr. CLARK. In round numbers, \$170,000,000 yet payable under that section.

Mr. LONGWORTH. And that would close out the entire obligation of the Government under that section?

Mr. FREAR. Together with the \$5,000,000 above referred to.

Mr. LONGWORTH. I said under that section.

Mr. CLARK. Yes; \$170,000,000 closes out the claims under section 209 and about \$5,290,000 closes out the claims under section 204.

Mr. LONGWORTH. Mr. Clark, the Treasury Department estimate that in round numbers \$550,000,000 ought to be paid to the railroads this present fiscal year. How much of that did your commission certify?

Mr. CLARK. We certified \$2,500,000 under section 204 and \$426,250,000 under section 209.

Mr. COPLEY. Has that all been paid?

Mr. CLARK. He asked what we had certified.

Mr. COPLEY. Yes.

Mr. LONGWORTH. I am talking about the coming fiscal year which has not been paid.

Mr. CLARK. According to our estimates, there will be \$5,290,000 under section 204, and \$170,000,000 under section 209.

The CHAIRMAN. In round numbers, \$175,000,000 under the two sections.

Mr. CLARK. Yes.

Mr. LONGWORTH. Then that would leave a balance of \$380,000,000 that the director general would certify.

Mr. FREAR. What part of this is coming during the present fiscal year; can you tell?

Mr. CLARK. No; we can not tell because there is no time limit in which the carriers must file their claims.

Mr. FREAR. I meant as to the amounts you have already certified, the \$426,000,000.

Mr. CLARK. I understand that that has all been paid.

Mr. FREAR. In this fiscal year?

Mr. COPLEY. In the last fiscal year.

Mr. CLARK. Within the last fiscal year, mainly.

Mr. FREAR. The fiscal year 1921.

Mr. CLARK. Mainly in the fiscal year ending June 30, 1921.

Mr. LONGWORTH. Mr. Clark, the claims of the railroads amount to \$824,000,000, which you expect to settle in full for \$596,000,000. Was there certified to the Treasury any more than the amount you expect to pay?

Mr. CLARK. No; our estimate is \$596,000,000 and we have certified something over \$426,000,000.

Mr. LONGWORTH. So that after the Treasury has paid \$170,000,000 to the railroads, in round numbers, the transaction is completely closed.

Mr. CLARK. As near as we can estimate or judge it at the present time, \$175,000,000 more will clean up the guarantees under those two sections of the transportation act.

Mr. COPLEY. The claims of the railroads in excess of that were around \$240,000,000?

Mr. CLARK. \$228,500,000.

Mr. COPLEY. \$230,000,000, I should have said; \$228,000,000 and \$2,500,000 that they claimed under section 204; that is, they claimed \$13,800,000 and you allowed \$11,000,000, which would mean an excess of \$1,800,000 plus the \$228,000,000, which in round numbers would be \$230,000,000.

Mr. CLARK. Yes.

Mr. COPLEY. That is all they claim in excess of the estimates of the Interstate Commerce Commission?

Mr. TREADWAY. Have they any recourse of appeal for that amount, or is your decision supreme.

Mr. CLARK. I do not see how they have any appeal under the provisions of this act. The law provides that the Government will guarantee them these amounts provided they accept the provisions of the section. They filed their acceptances of the provisions of the section. The section provides that the commission shall certify the amounts due them and that the commission shall determine the amounts that may be included for maintenance of way and structures and for maintenance of equipment, and that the Secretary of the Treasury shall pay the amounts so certified. I do not think there is any appeal for anybody.

Mr. FREAR. You stated in that connection, Mr. Clark, that the President had certain powers in the case of abnormal or unusual conditions on a road whereby he could give some additional amount. Has that power been exercised, or could it be exercised under these circumstances?

Mr. CLARK. Not with regard to the figures I am talking of, because I am giving figures for the guaranty period, which was the six months following the termination of Federal control. The President has no more voice in these guaranties than anybody else.

Mr. FREAR. I was just quoting what you had said in regard to it and I did not know what that related to.

Mr. CLARK. That relates to the period of Federal control during which the Government agreed to pay them as compensation for the use of their properties annually an amount equal to the average of the three years of the test period. It charges the commission with the duty of certifying what that standard return or average is, and that amount so certified to the President fixes the maximum that he can settle with the carrier for, unless, under this other provision, he finds abnormal and unusual conditions with regard to the carrier whose property, perhaps, was not developed during the test period. It may have been brought into operation, largely, and into existence during the last year of the test period, so that the average for the test period would not be a fair estimate of the worth of the property to the Government.

Mr. FREAR. I was just asking, in connection with Mr. Treadway's question about the right of appeal, if any allowance had been made.

Mr. CLARK. During the period of Federal control, the right of the carrier to appeal to the courts is preserved in full. It is preserved under the contract which was made between the President and most of the carriers, but during the guaranty period I do not think there is any appeal.

Mr. OLDFIELD. Mr. Clark, have you put in the record this morning, or at any time, the amount of money that the Government has paid the railroads?

Mr. COPLEY. Yes; that is already in.

Mr. OLDFIELD. And how much the Government still owes the railroads and how much the railroads owe the Government?

Mr. COPLEY. That is all in the record.

Mr. CLARK. I have not put in anything as to what the railroads owe the Government.

Mr. OLDFIELD. I would like to have that.

Mr. COPLEY. That is a question I was going to ask you. To offset this balance which is still owed by the Government to the railroads for operating, the Government has some advances for equipment and construction, has it not?

Mr. CLARK. Yes.

Mr. COPLEY. Would you mind telling us about that?

Mr. CLARK. Under the Federal control act the President was authorized during the period of Federal control to make necessary improvements and betterments on the line, and to charge the cost of such improvements and betterments to the carriers. There were appropriate provisions for giving the carrier opportunity to object. Those charges were to include only such charges as under the established accounting regulations could and would be charged by the carrier to capital account if the carrier had made the same improvements.

Mr. OLDFIELD. The railroads are making more money now than they were some months ago, are they not?

Mr. CLARK. The results from operations are looking better in May and June than they did for the preceding months.

Mr. COPLEY. Mr. Clark, what is the sum total of the amount advanced by the Government to capital account?

Mr. CLARK. We do not have those figures. They are in the hands of the Railroad Administration. I understand that they amount to approximately \$500,000,000.

Mr. HAWLEY. Are there any unliquidated claims of the railroads arising under Federal control that have not yet been settled?

Mr. CLARK. Oh, yes; a comparatively small proportion of them have been finally settled.

Mr. HAWLEY. When the offsets of the Government for advances for capital account have been taken into account, what amount will there yet remain to be paid to the railroads for claims arising under Federal control?

Mr. CLARK. I would not like to make a guess at that, and it would be a guess. Those figures are all in the possession of the director general. He keeps those accounts.

Mr. COPLEY. Now, Mr. Clark, according to your statement—were you going to make a guess?

Mr. CLARK. No.

Mr. COPLEY (continuing). According to your statement, the railroads owe to the Government, for money advanced for capital account, \$500,000,000, and according to the statement of the Interstate Commerce Commission the Government owes the railroads \$231,000,000—

Mr. CLARK (interposing). No; \$175,000,000.

Mr. COPLEY. That is right. That would leave the railroads owing the Government, according to your figures, \$325,000,000. According to the railroads' figures you still owe them—

Mr. CLARK (interposing). Pardon me for interrupting you, but you are not keeping entirely separate the guaranty period and the Federal control period. That \$175,000,000 applies strictly and only to the guaranty period.

Mr. COPLEY. I know, but you still owe them that?

Mr. CLARK. Yes, sir; we think the Government owes them \$175,000,000 for the guaranty period.

Mr. COPLEY. The other matter is so small, it is only a few million dollars?

Mr. CLARK. But the other matter, what may be owed them in the settlement of the control period, which will be made between the railroads and the director general, is, of course, very large and there are wide differences between the railroads' claims and the amount that the director general is willing to pay.

Mr. FREAR. You do not speak for that?

Mr. CLARK. I do not speak for that at all.

Mr. WATSON. Do you know how much money the Government loaned to the railroads under section 210?

Mr. CLARK. The amount of that fund was \$300,000,000. There is a provision in the transportation act that awards of reparation and judgments secured against the Government during the Federal control period shall be paid out of this revolving fund of \$300,000,000. The best estimate that the director general and our commission can make as to the amount that would be necessary to so use was at first

\$40,000,000, so we set aside that amount from that fund for that purpose. It is probably going to be something more than will be necessary.

Mr. WATSON. What rate is that—6 per cent?

Mr. CLARK. Yes, sir. Having set aside \$40,000,000 for the payment of awards and judgments, there was left of the principal amount appropriated \$260,000,000, to which there has been added the amount of accrued interest and payments of principal, about \$5,000,000, leaving a total available for loans to August 1, of \$265,000,000. We have certified to the Secretary of the Treasury loans amounting to \$234,000,000. We have about \$4,500,000 on hand not yet certified and have made tentative commitments of \$23,000,000. That \$23,000,000 includes \$11,000,000 which probably will not be loaned. The total of the approvals and tentative commitments is \$261,500,000, leaving available for loans on August 1, \$3,600,000.

Mr. FREAR. Can you state in a few words, Mr. Clark, the different relations of the railroads held by the Interstate Commerce Commission, by the chairman of the War Finance Board, and by the director general? We have had the three gentlemen before us, each dealing with special figures showing the obligations of the Government to the railroads.

Mr. CLARK. I have no information as to the figures, at least as to the relations of the War Finance Corporation with the railroads. I understand, in a general way, but do not assert it as a known fact, that the War Finance Corporation has made some loans to the railroads. The President, through the director general, is charged with the settlement with the railroads of the compensation due them for the possession and use of their properties during the period within which they were under Federal control. We have no connection with that, except to determine the average of the net railway operating income of the individual road for the three years taken as the test period and certifying that amount to the President.

Mr. FREAR. That is in relation to the six months' guaranty?

Mr. CLARK. No; that is in relation to the Federal control period. We are charged with the duty of ascertaining the standard return, which is the average net railway operating income for the three test years, and we certify that to the President, and then we have nothing more to do with it.

Mr. FREAR. But you use that for a basis of determining the guaranty for the six months?

Mr. CLARK. Not exactly as a basis, no; but it works out in this way: The test period was from June 30, 1914, to June 30, 1917. That period did not coincide with the fiscal years which terminated December 31 or the same as the calendar years. The guaranty period runs for six months from March 1, 1920, and there, again, we have to take the corresponding six months of the test period, so we can not take the standard return and divide it by two in order to determine the amount of the guaranty.

Mr. FREAR. All that the Interstate Commerce Commission has to do is in relation to sections 204 and 209, which you mentioned, and the other, which is entirely different, is with the director general?

Mr. CLARK. Exactly. The handling of the settlements of accounts that are paid or will be paid for the two periods are entirely distinct.

As you have said, for the guaranty period it rests entirely with our commission and for the Federal control period entirely with the director general.

Mr. FREAR. The director general has been before us.

Mr. GARNER. Mr. Frear, I understood you to say that the director general and the chairman of the War Finance Corporation were before the committee. Did that happen this morning?

Mr. FREAR. No; two or three days ago.

Mr. GARNER. At what meeting of the committee was that?

The CHAIRMAN. I think that was day before yesterday.

Mr. GARNER. Was there a meeting of the full committee at that time?

The CHAIRMAN. Not the full committee; the Republican members of the committee.

Mr. GARNER. That is what I wanted to know. You are making a record of the meeting of the Republican members, as I understand. When will that record be available?

The CHAIRMAN. As soon as printed, which should be to-morrow.

Mr. GARNER. When you have a confidential meeting of the Republican members of the committee you have a stenographic report made which will be available?

The CHAIRMAN. Yes, sir.

Mr. GARNER. I was just wondering why you have some meetings secret and some public. May I ask if all the hearings you have had during the consideration of the bill when the Republican membership of the committee only were present have been made a matter of record?

The CHAIRMAN. I think so.

Mr. GARNER. Were the questions and answers of Dr. Adams taken down by a stenographer?

The CHAIRMAN. I think all except Dr. Adams; I do not know of any other.

Mr. GARNER. I merely asked whether or not the questions propounded by the members of the committee and the answers given by Dr. Adams as to the rates affecting the provisions of the bill have been made a matter of record.

The CHAIRMAN. Not the rates. We talked only of the administrative features. We have not finished that work yet.

Mr. GARNER. Let me state this: It is your desire, Mr. Chairman, at this time to ascertain what revenue we have to raise, to find out what we have to raise in the way of revenue during the coming year?

The CHAIRMAN. We have been trying to ascertain how much money is necessary to provide the Treasury with to meet the ordinary expenses of the Government and certain outstanding obligations heretofore contracted that must be paid during this and the next fiscal year.

Mr. GARNER. One of the reasons I asked the question I did was this: It has just developed that Mr. Clark is able to tell the committee the probable expense of the Government necessary under the guaranty period, and it has also developed from his statement that there is another obligation of the Government whose control and judgment is lodged in another body, to wit, the Railroad Administration. I do not know what the Railroad Administration's figures are or how much they anticipate, and I merely asked the question to see

whether or not we could get that information, and I was just wondering whether that information was elicited at the hearing and whether after printed it would be available to the Members of the House?

The CHAIRMAN. Just as soon as it is printed it will be available to every member of the committee who wants it. Is there anything further, Mr. Garner?

Mr. GARNER. I have nothing further, Mr. Chairman.

Mr. OLDFIELD. How much money would it be necessary for the Government to raise to loan to the railroads?

The CHAIRMAN. So far as the Interstate Commerce Commission is concerned, he has been stating what that is, Mr. Oldfield.

Mr. OLDFIELD. I understand. I am not asking the chairman; I am asking Mr. Clark.

The CHAIRMAN. I thought you were asking me.

Mr. OLDFIELD. No. Mr. Clark ought to know more than anybody here.

Mr. CLARK. I do not know whether you were here when I attempted to explain the Federal control act and the contract which was made with the carriers for the possession and use of their properties. During the period of Federal control it was provided that the President might make betterments and improvements on the properties properly chargeable under the accounting regulations to capital account and charge that amount against the railroad companies. He is authorized to fund that amount or to deduct it from the compensation due the carrier. Expenditures of that kind made by a railroad company itself on its own property would ordinarily be charged to capital account and would be funded under long-time bonds or obligations.

Mr. OLDFIELD. Of the railroads?

Mr. CLARK. Of the railroads. The President has funded some of the expenditures, mainly those for equipment.

Mr. OLDFIELD. How much; do you know?

Mr. CLARK. I understand that the director general now has about \$350,000,000 of equipment trust certificates. I assume you all understand what they are.

Mr. OLDFIELD. The Government is behind those?

Mr. CLARK. No.

Mr. GARNER. Will you state what they are? I believe that would be interesting to the membership of the House, at least.

Mr. CLARK. Stated crudely, if not accurately, they are chattel mortgages on the equipment, payable in annual installments with interest, and they are usually considered the very best of securities, because the principal amount is growing smaller year by year. Ordinarily they are favored in the markets. The President has not had, as I understand, sufficient funds with which to fund the improvements and betterments chargeable to capital account as he would otherwise do, and is put to the necessity of deducting from the compensation due the railroads. The result or effect of that is that instead of having the betterments and improvements made out of borrowed money, represented by funded debt, it is taken out of the current funds due for compensation, and the program, as I understand it, very crudely stated, which is advocated by the administration, is to authorize the War Finance Corporation to take from the Railroad

Administration, not to exceed \$500,000,000 of the securities of the railroads, including equipment trust certificates now in the possession of the Railroad Administration or hereafter taken by the Railroad Administration, thus leaving the Railroad Administration with the \$500,000,000 with which to settle the claims for compensation in cash, and with the expectation that the War Finance Corporation will as business conditions improve be able to turn these securities over to be absorbed by the markets at not less than the cost to the Government.

Mr. OLDFIELD. And the Government will guarantee the payment of them?

Mr. CLARK. No.

Mr. OLDFIELD. The War Finance Corporation is a part of the Government?

Mr. CLARK. No.

Mr. OLDFIELD. Why use the War Finance Corporation if the Government is not back of it any more?

Mr. CLARK. They are simply using the credit of the War Finance Corporation, which the Railroad Administration has not.

Mr. OLDFIELD. They use the credit of the Government through the War Finance Corporation?

Mr. CLARK. No; I do not regard it in that way. The appropriations have been made for the War Finance Corporation and they have that credit with the Secretary of the Treasury.

Mr. OLDFIELD. The appropriations made by Congress?

Mr. CLARK. Yes, sir. The Railroad Administration has not that credit.

Mr. TILSON. This is all very interesting, but it seems to me that it is beyond the subject under discussion. You wish to be enlightened on the amount of money the Government owes the railroads.

Mr. OLDFIELD. How much money the Government owes the railroads and how much money the railroads owe the Government.

Mr. YOUNG. If you will read Mr. Clark's statement you will get all of that, because he stated it very clearly.

The CHAIRMAN. Let Mr. Clark explain it. Do you gentlemen wish to ask Mr. Clark any further questions? [After a pause.] Mr. Clark, have you any further statement which you wish to make to the committee?

Mr. CLARK. I do not think that I care to add anything.

The CHAIRMAN. I had forgotten an important matter. Mr. Clark, an order was issued by the Interstate Commerce Commission in 1919, reducing freight rates on imported goods from the Pacific coast east below the rates charged on domestic goods of like kind; that order is still in existence, is it not? Are you familiar with that order? I have a copy here.

Mr. YOUNG. Is that in connection with this bill, Mr. Chairman?

The CHAIRMAN. It has something to do with the revenues of the Government, and I thought proper, while Mr. Clark was here, to as far as we can have that corrected. In my opinion it abrogates our revenue laws.

Mr. GARNER. What provision is that?

The CHAIRMAN. It is an order of the Interstate Commerce Commission of May 29, 1919, which reduces the freight rates. I have not the official printed order, but I have that in my possession somewhere. There was such a vast difference between the freight rates that I

marked some of them. The freight on glassware from Yokohama to Chicago, \$2.50 per 100 pounds, and from San Francisco to Chicago, \$2.34 per 100 pounds. Let us get down to coconuts, desiccated, \$2.32½ per 100 pounds from Shanghai to Chicago, and from San Francisco to Chicago \$3.45. This is in less-than-carload lots. There are some other rates which are very extreme. This is the only opportunity I have had to ask Mr. Clark these questions. It relates to the revenues of the Government.

Take rugs and screens, \$7.56½ per 100 pounds from Shanghai to Chicago and \$11.35 from San Francisco to Chicago. On tea from Shanghai to Chicago \$3.62½ per 100 pounds and from San Francisco to Chicago \$11.33. On toys from Yokohama to New York \$3.66½ per 100 pounds and from San Francisco on the same articles \$12.73½. In other words, the freight rate on imported goods from the Pacific coast to Chicago or to eastern points, in some instances, are about 25 per cent of the rate charged for the domestic produced article. On wool from San Francisco to Boston the rate is double on the domestic article, compared to the rate on the imported article coming in from South America, Mexico, or western points. The regulating of those rates, Mr. Clark, rests entirely with the Interstate Commerce Commission?

MR. CLARK. The commission would have the right to regulate them, Mr. Chairman, but the commission did not make those rates which you are talking about.

THE CHAIRMAN. The director general directed them through the commission at the time when Mr. Hines was director general. They were made, I take it, at that time, as I remember, maybe I am in error, but my information is that the director general by Executive order from the President under the war measures directed that those rates be made. There are 500 items of imports that are affected by those rates, on which is paid a lower freight rate if imported goods than if domestic goods.

MR. CLARK. For a good many years it has been the practice of the railroads to make import rates lower than the domestic rates. Rather early in the period of Federal control the director general canceled all export and import rates which were lower than the domestic rates.

THE CHAIRMAN. When?

MR. CLARK. During the early days of Federal control. Later on he reestablished many of them, and I would want to look at the tariffs, and so forth, to determine who fixed any such rates. Since the period of Federal control we have had some cases in which reparation has been claimed against the director general for charging an unreasonable rate, based in the main and in general on the fact that he canceled an import rate or an export rate that was lower than the domestic rate and charged the domestic rate for a very brief period, and then reestablished a lower import or export rate, but we have not fixed any of those rates.

I think it is proper I should explain that the reason for low export rates to the Pacific ports as compared with domestic rates is the necessity of making the export rates lower by a good deal than the domestic rates in order to induce any movement of traffic to the Pacific ports in competition with the Suez Canal and the Atlantic ports, because the rail haul to the Pacific Coast is so much longer.

The CHAIRMAN. A representative of Mr. Hines came to see me at the time and pointed out that the freight rates from the Orient to the Atlantic ports and the rail rates to Chicago, Cincinnati, and Indianapolis were \$2 per ton less than the water rate to the Pacific coast and then the rail rate from those Pacific ports to these particular places, but upon looking it up I found that there was little goods coming through the Panama Canal at that time.

Mr. CLARK. It is the Suez Canal. They can come through the Suez Canal from the Orient to the North Atlantic ports and move inland to Pittsburgh or Chicago with a 500 or a 1,000 rail haul, whereas if they come to San Francisco they have a 2,000-mile haul to get to Chicago.

The CHAIRMAN. I will write you and give you the number of the order and if you will be good enough to look it up I shall be obliged.

Mr. CLARK. I will be glad to look it up and inform you.

HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY, ACCOMPANIED BY MR. S. P. GILBERT, JR., ASSISTANT SECRETARY IN CHARGE OF FISCAL AFFAIRS, MR. JOSEPH S. MCCOY, GOVERNMENT ACTUARY, AND DR. T. S. ADAMS.

The CHAIRMAN. Mr. Secretary, we requested your presence this morning because Mr. Longworth and some other gentlemen wished to get some further detailed statement from you. If there is anything further you desire to say in addition to what you have already stated to the committee, we will be pleased, indeed, to have the information.

Secretary MELLON. I have here a summary of the statement of the Treasury Department relating to expenditures and revenues containing a restatement of what has been given to you and putting it in complete shape. I might read to you the explanation of what is contained in the statement.

The CHAIRMAN. If you will, please, Mr. Secretary.

Secretary MELLON (reading):

In accordance with the request of the committee, I have brought with me a statement which gives (a) the latest revised estimates of the receipts and expenditures of the Government for the fiscal year 1922, (b) estimates of the yield of internal revenue and customs under the present law and the revised law, and (c) a brief comment on the principal changes suggested for consideration in connection with the revision of the internal tax laws.

This statement shows estimated total current expenditures for the present year of about \$4,550,000,000, including sinking fund and miscellaneous public debt expenditures which have to be made under the law, for the most part out of specially earmarked receipts which are not available for general purposes. These estimates of expenditures are based on the latest information received by the Treasury from the spending departments of the Government as to their actual cash expenditures for the year, and make allowance for the cuts in expenditure already reported to the Treasury. The estimates take into account not only expenditures under annual appropriations for 1922, but also under unexpended balances and other available authorizations.

In presenting these estimates I ought to say that the Treasury itself does not control or supervise the expenditures of the Government offices. The Treasury's function is to find the funds to meet the current expenditures of the whole Government and provide for maturing interest and principal of the public debt. In the performance of this function, the Treasury must have for its own guidance the best available estimate as to the actual cash outgo of the Government. It can not take into account paper savings or hoped-for reductions in expenditure which can not reasonably be expected to materialize. The Treasury, of course, is on a cash basis, and in making its plans for the year it can take into account only actual cash savings. For these very reasons, there is no one more interested that the Secretary of the Treasury in reducing Government expenditures, and I have no hesitation in saying to you that

the Treasury would many times prefer further assured cuts in expenditure to additional taxes of any kind. Without a doubt, the most helpful thing would be a further cut in Government expenditure, and nothing would be more welcome to the Treasury.

Without the assurance of substantial additional reductions in expenditure, it would be folly to proceed to reduce revenue merely in the hope of reduced expenditure. Even without change in the law, revenue will shrink from natural causes, and will shrink, according to the present outlook, at a faster rate than current expenditure.

The actual expenditures for the first full month of the present fiscal year indicate that unless there is an extraordinary new effort to reduce expenditures the estimates which the Treasury has presented may be regarded as conservative. Ordinary expenditures for July, 1921, amounted to about \$322,000,000, as against \$307,000,000 for July, 1920, while the current deficit for July, 1921, was about \$113,000,000, as against \$76,000,000 for July, 1920. An analysis of the principal items of expenditure for July, 1921, show that \$51,000,000 was on account of the Army, \$56,000,000 on account of the Navy, and \$32,000,000 on account of the Shipping Board. If expenditures are to continue at anything like these rates the estimates will be greatly exceeded.

REVENUE NEEDS.

Taxation and tax revision depend upon public expenditures. According to the latest advices received from the spending departments and after taking into account all estimated reductions in expenditure reported to date, the Treasury estimates that the total expenditure for the fiscal year 1922 for which provision should be made out of the current revenues of the Government will be about \$4,550,000,000. This in itself would mean a substantial reduction in current revenues and expenditures below the fiscal year 1921. The total ordinary revenues for 1921 amounted to about \$5,625,000,000, or over \$1,000,000,000 in excess of the revenues estimated to be necessary for 1922. The estimate for 1922, moreover, does not mean that \$4,550,000,000 must be provided by taxation. It is estimated that there will be miscellaneous revenues during the year from salvage and sources other than taxation amounting to about \$350,000,000. This would leave \$4,200,000,000 to be provided from customs and internal revenue. It is estimated that the revenues from customs under existing law would be about \$300,000,000 for the year, and that these might be increased by about \$70,000,000 if a revised tariff law should become effective about December 31, 1921. The balance, about \$3,830,000,000 (as against estimated internal revenue yield for the year under existing law of \$3,570,000,000) should be provided out of internal revenue. This revenue can be safely reduced only if and to the extent that further reductions are enforced in the spending departments of the Government. This means that if additional taxes are to be avoided, there must be additional effective cuts in ordinary expenditure of over \$250,000,000, and that even if such cuts were assured the internal revenue yield for the year could not safely be permitted to fall below \$3,570,000,000, the estimated yield under existing law. The reductions in expenditure reported up to date have been taken into account in framing the estimates.

Table I, which follows, shows the estimated receipts and expenditures for the fiscal year 1922 under existing law:

TABLE I.—*Statement of estimated receipts and expenditures for fiscal year 1922, on basis of existing law (revised Aug. 3, 1921).*

Receipts (existing law):		
Customs.....		\$300,000,000
Internal revenue—		
Income and profit taxes.....	\$2,235,000,000	
Miscellaneous internal revenue.....	1,335,000,000	
		<hr/> 3,570,000,000
Miscellaneous revenue:		
Sales of public lands.....	1,500,000	
Federal reserve bank franchise tax.....	60,000,000	
Interest on foreign obligations.....	25,026,000	
Repayments of foreign obligations.....	30,500,000	
Sales of surplus war supplies.....	60,000,000	
Panama Canal.....	14,530,000	
Other miscellaneous.....	156,087,000	
		<hr/> 347,643,000
Total.....		<hr/> <hr/> 4,217,643,000

Expenditures:

Ordinary.....	\$4, 002, 657, 952
Public debt expenditures required by law—	
Sinking fund.....	\$265, 754, 865
War-savings securities (net).....	100, 000, 000
Miscellaneous debt redemptions.....	100, 000
Purchases of Liberty bonds from foreign repayments.....	30, 500, 000
Redemptions of bonds and notes from estate taxes.....	25, 000, 000
Retirement of Pittman Act certificates.....	70, 000, 000
Retirement from Federal reserve bank franchise tax receipts.....	60, 000, 000
	<u>551, 354, 865</u>
Total ordinary expenditures (including sinking fund and miscellaneous debt retirements).....	<u>4, 554, 012, 817</u>
Excess of expenditures over receipts.....	<u>336, 369, 817</u>

CLASSIFICATION OF ESTIMATED EXPENDITURES FOR FISCAL YEAR 1922.

[Based on latest estimates from the spending offices, with allowances for all reductions reported to date.]

Legislative.....	\$17, 213, 813
Executive.....	1, 897, 751
State Department.....	10, 344, 000
Department of Justice.....	17, 000, 000
Post Office Department.....	2, 200, 000
Interior Department (including pensions and Indians).....	322, 000, 000
Department of Agriculture.....	123, 000, 000
Department of Commerce.....	19, 923, 000
Department of Labor.....	5, 252, 887
Independent offices.....	13, 484, 516
District of Columbia.....	22, 187, 663
Miscellaneous.....	62, 500, 000
	<u>617, 003, 630</u>
Postal deficiency.....	<u>70, 000, 000</u>
Treasury Department:	
Bureau of War Risk Insurance.....	\$286, 000, 000
Public Health Service.....	47, 000, 000
Collecting revenue.....	53, 110, 139
All other.....	99, 457, 795
	<u>485, 567, 934</u>
Federal Board for Vocational Education.....	162, 655, 184
War Department.....	450, 000, 000
Navy Department.....	487, 225, 000
Shipping Board.....	200, 000, 000
Railroads ¹ (transportation act and Federal control).....	545, 206, 204
Interest on public debt.....	975, 000, 000
Panama Canal.....	10, 000, 000
	<u>3, 385, 654, 322</u>
Total ordinary.....	<u>4, 002, 657, 952</u>
Public debt expenditures required by law:	
Sinking fund.....	\$265, 754, 865
War-savings securities (net).....	100, 000, 000
Miscellaneous debt redemptions.....	100, 000
Purchases of Liberty bonds from foreign repayments.....	30, 500, 000
Redemptions of bonds and notes from estate taxes..	25, 000, 000
Retirement of Pittman Act certificates.....	70, 000, 000
Retirement from Federal reserve bank franchise tax receipts.....	60, 000, 000
	<u>551, 354, 865</u>
Total retirements.....	<u>551, 354, 865</u>
Grant total ordinary expenditures (including sinking fund and miscellaneous debt retirement).....	<u>4, 554, 012, 817</u>

¹ No allowance is made for possible cash expenditures resulting from withdrawals by the War Finance Corporation, which has a credit balance of about \$400,000,000 with the Treasurer and may draw down its balance, at least temporarily, in connection with the railroad financing proposed under pending legislation.

REVENUE YIELD OF REVISED LAW.

Estimates of the expected revenue under the suggested revised law (with comparative figures for the present law) are furnished in Table II below. The changes upon which the estimates for the revised law are based are briefly summarized on page 7 hereof, and further comment will be found on page 8. The grounds on which the more important recommendations are based were presented in my letter of April 30, 1921, to the chairman of the Committee on Ways and Means, and need not be repeated in detail here. For the fiscal year 1922 the present law, it is estimated, would yield \$3,870,000,000 in internal revenue and customs. Under the revised law the estimated collections from these sources would amount to \$3,935,000,000, assuming that the revision of the corporation income and excess-profits taxes is made effective as of January 1, 1921. These figures do not include the estimated proceeds of the suggested 1-cent tax on first-class mail matter and the suggested 2-cent tax on bank checks. These taxes, it is estimated, would yield about \$117,000,000 a year, or about \$58,500,000 for the fiscal year 1922. Table II follows:

TABLE II.—*Estimated receipts from internal revenue and customs under present and revised laws.*

[Figures in parentheses show results if the revision of the corporation income and excess-profits tax is made effective as of Jan. 1, 1922.]

Source of revenue.	Fiscal year 1922.		Fiscal year 1923.	
	Present law.	Revised.	Present law.	Revised.
Customs.....	\$300,000,000	\$370,000,000	\$300,000,000	\$450,000,000
Income tax:				
Individual.....	875,000,000	875,000,000	850,000,000	850,000,000
Corporation.....	456,000,000	{ 1 (456,000,000) }	415,000,000	{ 1 (562,000,000) }
Profits tax.....	669,000,000	{ 1 (669,000,000) }	485,000,000	{ 1 (192,500,000) }
Back taxes: Income and profits.....	235,000,000	235,000,000	335,000,000	335,000,000
Miscellaneous internal revenue.....	1,335,000,000	1,385,000,000	1,349,000,000	1,345,000,000
Total.....	3,870,000,000	{ 1 (3,935,000,000) }	3,734,000,000	{ 1 (3,734,500,000) }

¹ Revision as of Jan. 1, 1922.

NOTE 1.—The revision upon which the estimates under revised law are based is outlined on next page. For detail of miscellaneous revenue, see below.

NOTE 2.—An additional revenue tax of 1 cent on first-class mail would yield, it is estimated, about \$72,000,000 annually (\$36,000,000 for fiscal year 1922).

NOTE 3.—A stamp tax of 2 cents on each bank check would yield, it is estimated, about \$45,000,000 annually (\$22,500,000 for fiscal year 1922).

Estimated miscellaneous internal revenue.

Source of revenue.	Fiscal year 1922.		Fiscal year 1923.	
	Present law.	Revised.	Present law.	Revised.
Estate tax.....	\$150,000,000	\$150,000,000	\$150,000,000	\$150,000,000
Transportation.....	282,000,000	200,000,000	265,000,000	85,000,000
Telephone and telegraph.....	28,000,000	28,000,000	29,000,000	29,000,000
Insurance.....	19,000,000	19,000,000	20,000,000	20,000,000
Alcoholic spirits, etc.....	75,000,000	75,000,000	75,000,000	75,000,000
Beverages (sec. 628).....	35,000,000	35,000,000	35,000,000	35,000,000
Soft drinks, etc. (sec. 630).....	25,000,000	12,000,000	25,000,000	.....
Tobacco:				
Cigarettes.....	136,000,000	155,000,000	138,000,000	180,000,000
Smoking and chewing.....	60,000,000	66,000,000	60,000,000	75,000,000
All other.....	59,000,000	59,000,000	60,000,000	60,000,000
Admissions and dues.....	96,000,000	96,000,000	100,000,000	100,000,000
Automobiles:				
Present tax.....	115,000,000	115,000,000	116,000,000	116,000,000
Federal license tax.....	.....	85,000,000	.....	100,000,000
Pianos, organs, etc.....	50,000,000	50,000,000	50,000,000	50,000,000
Motion-picture films.....	6,000,000	6,000,000	6,000,000	6,000,000
Sculptures, paintings, etc.....	1,200,000	1,200,000	1,250,000	1,250,000
Carpets, etc., (sec. 904).....	20,500,000	5,000,000	20,500,000	.....
Jewelry, watches, etc.....	25,000,000	25,000,000	25,000,000	25,000,000
Perfumery, cosmetics, medicines, etc.....	6,000,000	6,000,000	6,000,000	6,000,000
Corporation capital stock.....	80,000,000	80,000,000	80,000,000	80,000,000
Issues and conveyances of capital stock, bonds, etc.....	55,000,000	80,000,000	55,000,000	105,000,000
Capital stock transfer.....	8,800,000	12,000,000	9,000,000	17,000,000
Sales of produce on exchanges.....	7,600,000	10,000,000	8,000,000	15,000,000
Miscellaneous taxes.....	15,590,000	15,590,000	15,590,000	15,590,000
Total.....	1,335,690,000	1,385,790,000	1,349,340,000	1,345,840,000

NOTE.—The revision upon which the above estimates are based assumed the following changes:

1. A new tariff law in effect about December 31, 1921.
2. The increase of the corporation income tax to 15 per cent, as of January 1, 1921 (or January 1, 1922), and the repeal of the \$2,000 exemption.
3. The repeal of the excess profits tax, as of January 1, 1921 (or January 1, 1922).
4. Increased collections of back income and profits taxes.
5. An increase in the tax on cigarettes and smoking and chewing tobacco.
6. The repeal of the transportation tax upon freight and passengers; the tax to be reduced one-half January 1, 1922, and entirely repealed January 1, 1923.
7. Certain of the stamp taxes, as carried in Title XI of the revenue act of 1918, to be materially increased.
8. An annual Federal license tax upon motor vehicles, averaging about \$10 apiece, and to be graded according to power.
9. The repeal of section 630 of the revenue act of 1918, as of January 1, 1922 (the tax on ice cream and fountain drinks, etc.).
10. The repeal of miscellaneous taxes levied under section 904 of the revenue act of 1918, as of January 1, 1922.
11. A revision of the income tax rates, with the maximum surtax rate reduced to 32 per cent.

COMMENT ON SUGGESTED REVISIONS.

1. *Customs.*—The estimates of revenue under the revised law assume that a more productive tariff law will be adopted, capable of yielding about \$70,000,000 additional revenue for the fiscal year 1922 and \$150,000,000 additional for the fiscal year 1923.

2. *Individual income tax.*—The total net income subject to the higher surtax rates is rapidly dwindling, and funds which would otherwise be invested in productive enterprise are being driven into fields which do not yield taxable income. The total estimated revenue from the surtaxes under existing law is about \$500,000,000 for the taxable year 1921. The estimated yield for the year from the surtax rates above 32 per cent would be less than \$100,000,000. The immediate loss in revenue that would result from the repeal of the higher surtax brackets would be relatively small, and the ultimate effect should be an increase in the revenues. It is suggested that the normal and surtax rates be limited to a combined maximum rate not exceeding 40 per cent for the taxable year 1921 and 33 per cent thereafter. I am confident that in a short time the Treasury would actually collect more under the lower rates than under the higher rates if continued.

3. *Corporation taxes.*—I approve the repeal of the excess-profits tax, which is rapidly becoming unproductive. I suggest as a substitute an increase of 5 per cent in the rate of the corporation income tax and the repeal of the specific exemption of \$2,000 now accorded to corporations. This would greatly simplify the problem of administration and collection, without substantial loss of revenue.

4. *Back taxes.*—Collections of back taxes are estimated to yield about \$235,000,000 net in the year 1922 and about \$335,000,000 in the year 1923. It may be possible to secure some additional revenue from this source, perhaps as much as \$100,000,000 additional in the year 1922.

5. *Miscellaneous taxes—Suggested reductions.*—It is suggested that the following miscellaneous taxes be repealed or reduced:

(a) The transportation tax on freight and passengers, it is suggested, might be reduced one-half by January 1, 1922, and repealed entirely at the close of the calendar year 1922. The resulting loss of revenue would be approximately \$62,000,000 for the fiscal year 1922, and \$180,000,000 for the fiscal year 1923.

(b) The taxes on ice cream and fountain drinks imposed by section 630, now collected from consumers in such a way as to cause unnecessary irritation and material evasion, should be repealed. For similar reasons the excess-price taxes now imposed by section 904 upon articles of wearing apparel should be repealed, and the other articles included under section 904 should be taxed at appropriate rates to the producer or importer under the general provisions of section 900. The maximum loss in revenue estimated to result from these changes would be less than \$25,000,000 in the fiscal year 1922.

(c) The tax on perfumes, cosmetics, and proprietary medicines (sec. 907) also results in unnecessary irritation and is widely evaded. I suggest that this tax be imposed upon the producer or importer, as are most of the sales or excise taxes now imposed by the revenue act of 1918. This could be done without any loss in revenue.

6. *Suggested additional taxes.*—Shrinkage in the yield of existing taxes, the gaps resulting from the suggested reduction and repeal of the transportation tax and the changes in other taxes, and the pressure of expenditures upon the Treasury, make

necessary the consideration of additional taxes. These taxes are, of course, not suggested as desirable in themselves; but in my opinion they are less objectionable than some other new or additional taxes which have been proposed.

(a) Increase the documentary stamp taxes, by approximately doubling the present rates, so as to increase the revenue from this source by approximately \$30,000,000 for the fiscal year 1922 and \$70,000,000 for the fiscal year 1923. These estimated additional proceeds are included in Table II.

(b) The proposed stamp tax of 2 cents on each check (payable on sight or on demand) would yield, it is believed, about \$45,000,000 a year. The estimated proceeds of this tax have not been included in the main totals of Table II.

(c) I suggest also as a convenient method of taxation an increase of 1 cent in the rate of postage on first-class mail matter, to 3 cents per ounce or fraction thereof on all except drop letters and to 2 cents per ounce or fraction thereof on postal cards. Such a tax would yield, it is estimated, about \$72,000,000 a year (not included in Table II).

(d) An annual Federal license tax upon motor vehicles, averaging about \$10 per vehicle, and to be graded according to power, would yield approximately \$100,000,000 a year, or about \$85,000,000 the first year (1922) of its imposition. The estimated proceeds of this tax are included in Table II.

(e) An increase in the tax on cigarettes from \$3 to \$5 per thousand, and a slight increase in the other taxes on tobacco products would yield additional revenue of \$25,000,000 in the fiscal year 1922 and approximately \$57,000,000 in the fiscal year 1923 (included in Table II).

FISCAL YEAR 1923.

The foregoing recommendations take into account probable reductions in current expenditure for the fiscal year 1923, when, for example, it is expected that there will be relatively small payments to make to the railroads as against estimated payments in the fiscal year 1922 of \$545,000,000. Against these reductions, however, it is expected that there will be shrinkages in receipts. The suggestion that the transportation tax be repealed, effective in part January 1, 1922, and in its entirety January 1, 1923, would alone involve a loss of revenue of about \$300,000,000 for a full year. It is also necessary to bear in mind that the estimated income and profits tax receipts for the fiscal year 1922 include two quarterly installments of income and profits taxes based on the business of the calendar year 1920, and that a substantial shrinkage below the 1922 figures for these receipts is to be expected during the fiscal year 1923 as a result of the shrinkage in incomes and the depression in business in 1921. In the fiscal year 1923, moreover, the Victory Liberty loan and the 1918 series of war-savings certificates become due. With these extraordinary maturities of the public debt to meet, it is important that the Treasury have some margin of current revenue over current expenditure for the year, in order that the vast refunding operations which will have to be carried on during the year in any event may not be complicated or embarrassed by additional borrowings to meet current expenditures which ought to be provided for out of current revenues.

Mr. FREAR. Mr. Secretary, would it be preferable to ask questions now regarding the statement you have just furnished, in comparison with the estimates furnished in the report of 1920; that is, asking the questions of you or those in your department, because I presume, of course, you would have to refer to them somewhat.

Secretary MELLON. I think Mr. Gilbert can give you the information.

Mr. FREAR. Mr. Gilbert, in this report of 1920 made by the Secretary, it appears at page 296 that from customs the estimate was \$350,000,000. In the statement just placed before us, the estimate is \$300,000,000. That leaves out of consideration entirely, as I understand it, any increase from the tariff bill that will probably go into effect for 1922, and also discounts \$50,000,000 from the estimate made in 1920 based on the old law.

Mr. GILBERT. That is correct.

Mr. FREAR. What is the justification for that?

Mr. GILBERT. The estimate of customs revenue under the revised law is contained in a separate table showing the estimate of revenue

under the revised law. As to the existing law, the estimate has been revised downward in the light of actual receipts from customs.

Mr. FREAR. What amount would be realized, do you estimate, from the tariff law as it stands to-day?

Mr. GILBERT. That is estimated at \$300,000,000.

Mr. FREAR. What do you estimate will be the increase, if any, from the new law when it goes into effect, if it goes into effect by the 1st of January, which would cover six months of the fiscal year?

Mr. GILBERT. Mr. McCoy has estimated that at about \$70,000,000 for those six months.

Mr. FREAR. Have you given any consideration to that in this estimate of \$300,000,000?

Mr. GILBERT. That estimate was an estimate under existing law. There is a separate estimate that takes into account the estimated increase. It appears in Table II in the Secretary's statement.

Mr. FREAR. It has been said that page 5 answers all these questions. Is this a comparison with the estimates that were made on page 276?

Mr. GILBERT. No; that is not involved. The estimates in the annual report were made so long ago, and as to the ensuing year are always made so much in advance of the event, that it was difficult then to give more than an approximation.

Mr. FREAR. Then let me continue my inquiries, if I may, because it seems to me this is particularly what we have in mind. On page 276 the receipts estimated in 1922 from income and profits tax amount to \$2,625,000,000, whereas in the statement just placed before us it is \$2,235,000,000, or a difference of \$390,000,000 in that one item of a combination of the income and profits taxes.

Mr. GILBERT. That is a revised estimate based on developments in business and a reexamination of figures by the Treasury Department in the light of actual collections this year.

Mr. FREAR. In the next item of miscellaneous internal revenue I observe there is a loss of \$40,000,000 between the estimate made by Secretary Houston and the present estimate. That would be \$480,000,000 of loss on those three items. Has the purpose been to give us just exactly what you believe the income will be or to allow for a margin, or just what is the reason for that?

Mr. GILBERT. I think I may say that these are our best estimates of the amounts to be received, and that the figures have all been most carefully considered by the Government actuary and checked up to date.

Mr. FREAR. I thought it was proper to call attention to that so that it would be clearly stated in the record.

Mr. TILSON. Mr. Secretary, in your list of estimated expenditures for the fiscal year 1922 the largest single item, outside of interest on the public debt, is \$545,000,000, in round numbers, for the railroads. Now, that is clearly not a current expenditure for this year in the sense of being a current expense for the running of the Government; that is actually the payment of a war debt, really.

Secretary MELLON. It represents, for the most part, the loss of the Government in its railroad relations.

Mr. TILSON. But it is not for this current year. It is for something that is passed; is not that correct?

Secretary MELLON. That depends on where you would spread it. It involves cash payments this fiscal year.

Mr. TILSON. At any rate, it does not belong exclusively to this current year.

Secretary MELLON. That is right.

Mr. TILSON. The liability arose prior to this fiscal year.

Secretary MELLON. Exactly.

Mr. TILSON. Also, one of the large items of the Shipping Board item of \$200,000,000, and you carry that in the list of current expenditures. It may be a necessary expenditure, but it is not a legitimate, current expense for this year.

Secretary MELLON. It is a necessary expenditure, but it is not what would be termed an ordinary expense of the Government.

Mr. TILSON. Then, Mr. Secretary, if those two sums—and there are others here of considerable magnitude—should be raised once, they would be settled for all time, and would not need to be carried in a revenue bill for the years to come, and even if we raised these extraordinary large amounts in this year when we have to pay them, we certainly should not have to raise them again in the years to come.

Secretary MELLON. No; they would have been taken care of. I hope they are not recurring items. On the other hand, there will be this year large compensating items in the form of nonrecurring receipts.

Mr. TILSON. Then there is the item, also, of the war savings certificates, and while it is perfectly proper for us to have a sinking fund and pay a part of that every year, as we ought to do as a business proposition, it certainly is not incumbent upon us, as a part of the running expenses of this year, to pay off a considerable amount of that which is really a part of the war debt.

Secretary MELLON. It is paying, to that extent, the war debt.

Mr. TILSON. And paying it in this one year.

Secretary MELLON. Yes.

Mr. TILSON. Then there is the item of the retirement of the Pittman Act certificates. Does not that come under the same heading? In other words, is there that much of it that ought to be legitimately paid in this year and included as a part of our current expenses for this year just like the sinking fund? It seems to me that ought not to be considered as a part of our permanent annual expense in running the Government.

Secretary MELLON. It is true that those items are not recurring items of annual expenditure.

The CHAIRMAN. In other words, Mr. Tilson, if I understand you, those items you have mentioned falling due and payable within the next year are items not of current expenses of this year, but items of cost to the Government incurred heretofore but payable now.

Mr. TILSON. Yes; they happen to be payable in this year.

The CHAIRMAN. And in your opinion we should not carry a provision in the bill to raise sufficient revenue for future years based on the expenditures of this year, because of those large items?

Mr. TILSON. No more than we should attempt to raise an amount sufficient to pay the Victory loan. If they were due this year, nobody would undertake to say we should attempt to raise enough money to raise the entire issue of the Victory loan simply because they become due and actually payable in this year.

Mr. GARNER. Mr. Tilson, how much is the total of those two items?

Mr. TILSON. \$545,000,000 for the railroads, \$200,000,000 for the Shipping Board, \$100,000,000 for the war savings certificates, and \$130,000,000 for the Pittman Act certificates and the Federal Reserve Board certificates.

The CHAIRMAN. In round numbers, \$1,000,000,000.

Mr. TILSON. Nearly \$1,000,000,000 of actual indebtedness that we are called upon to pay in the current expenses of this year.

Mr. YOUNG. Will not that result in collecting from the people a very much larger sum than will be necessary in the following years?

Secretary MELLON. The outgo is necessary, the money must be paid, and the only alternative would be adding to the floating debt; that is, additional borrowings by the Treasury.

Mr. YOUNG. Congress is liable to spend whatever is gotten into the Treasury, and there is not going to be any big balance left, no matter how much money is raised.

Mr. TILSON. But should we pay, Mr. Secretary, an inordinate amount of that indebtedness in one year? We are not paying an inordinate amount of the Victory loan, for instance. We are paying nothing of that except its share of the sinking fund.

Secretary MELLON. That would seem reasonable, but in view of the magnitude of the floating debt and the borrowing that has to go on, even without these additional amounts, to borrow to meet current outgo would put a very great burden on the industry of the country; that is, the increase in our floating debt and the monthly borrowings and the carrying of the debt along in that way would put a heavy burden upon the banking resources of the country and upon the security markets.

Mr. TILSON. But will not the drain for taxes be just the same upon the industries of the country? Whether paid one way or the other, there is the same drain on the industries of the country.

Secretary MELLON. Yes; there will be a drain either way.

Mr. TILSON. I am trying to distinguish between the running expenses of the Government and a fair amount for a sinking fund, which we must have, as a business proposition. Now, is it not a fact that we have borrowed too little money; that at the end of the war or during the war, we borrowed too little money and allowed too much of this to run as a floating indebtedness? It seems to me we failed to put into permanent form a sufficient amount of the actual debts.

Secretary MELLON. The bulk of all these special items of which you speak has accumulated since the war, but you might say it grew out of the war.

Mr. TILSON. It is all an expense of the war. There is no question about that.

Secretary MELLON. Yes. Now, as an offset to these items, there are items of revenue that are extraordinary or that are not annual items of revenue.

Mr. GREEN. Yes; I was just going to mention that.

Secretary MELLON. So that you can not say the three-quarters of a billion dollars, or whatever that amount may be, is all an additional burden, because there are these items of revenue which are also extraordinary.

Mr. TILSON. Of course, those should enter into the matter and be credited.

Secretary MELLON. Yes.

Mr. GARNER. How much do those items amount to?

Secretary MELLON. There are the collections for back taxes which belong to the war period. There are the salvage items for war materials, and there are items like the excess-profits tax and the tax paid from the earnings of the reserve banks; and other items of that nature. I do not know exactly to what extent they would offset these extraordinary expenditures.

Mr. GARNER. But something like \$500,000,000, I gather, and it may run to six or seven hundred million dollars, if you collect the \$200,000,000 that your Commissioner of Internal Revenue said the other day you would collect if we gave him \$8,000,000 more.

Secretary MELLON. Yes; \$300,000,000 of back taxes is the estimated collection for the fiscal year.

Mr. GARNER. Because you will then collect \$550,000,000 back taxes during the present fiscal year, and adding to that the salvage and the amount you receive from the Federal banks, will run it up to about seven or eight hundred million dollars, or almost as much as the amount of money you are charging up to this fiscal year. In that connection, let me ask you, is it good business for the Government to continue to borrow money to meet its expenses each year?

Secretary MELLON. No; that would not be good business.

Mr. GARNER. Some of these obligations that Mr. Tilson speaks of will exist next year, as I understand it.

The CHAIRMAN. What do you mean—short-time obligations?

Mr. GARNER. No; some of the obligations included in the expenditures for this year.

Mr. TILSON. Not if they are paid.

Mr. GARNER. They will be paid this year, and then there will still be obligations next year because you will probably owe the railroads something in the year 1923.

Secretary MELLON. What you mean is that there will be other like obligations.

Mr. GARNER. Yes; in the next fiscal year.

Secretary MELLON. To some extent; yes. There will at least be some lapovers.

Mr. GARNER. That is exactly what I am saying, and if you are going to levy your taxes with a view to funding these obligations by certificates, there will be an indefinite period in which you will continue to issue certificates of the Treasury; is that correct?

Secretary MELLON. Yes; I think so, though that would depend on what progress can be made in reducing expenditure.

Mr. GARNER. Mr. Secretary, do you consider that a good program and a sound, economic program for the Government to pursue?

Secretary MELLON. You say it would be an indefinite period. It would not be that. We are, of course, working out of the heavy expenditures, and the Treasury has already embarked on its program for refunding the short-dated debt by successive issues of Treasury notes.

Mr. GARNER. I understand, but there will be an indefinite period in which these same obligations will have to be met, and do you consider that a sound economic policy for the Government to pursue?

Secretary MELLON. Considering the large amount of floating debt and the additional Victory loan debt which is falling due, I think it is desirable to take care of as much as possible out of revenues.

Mr. GARNER. Now, Mr. Secretary, if we could arrive at a figure which would represent the permanent annual expenditure in this country, then could not the Congress levy taxes to meet that expenditure and levy whatever limited taxes may be necessary this year and next year to take care of the extra expenditures; could not that be done?

Secretary MELLON. Yes; that could be done.

The CHAIRMAN. You could levy enough taxes to pay off the whole \$25,000,000,000. Of course, we could levy \$25,000,000,000 of taxes upon the people this year, but would it be wise and could you get it? We owe that much money, and the Secretary goes into office with a floating debt of \$7,500,000,000 of certificates of indebtedness and other short-time obligations, together with an expenditure of four or five or six billion dollars annually to take care of our interest account and other running expenses of the Government. The Secretary has said he did not think it wise to attempt to pay all of that in 15 minutes or in 15 months, but to carry it along and extend those obligations, many of them, to the best advantage of the Government at times when he thought it wise to do that. You asked the question, Mr. Garner, whether the Secretary thought it wise to continue the refunding of those short-time obligations or tax the people right now to take care of them? You know we can not raise four or five billion dollars a year to pay the running expenses of the Government annually and pay off \$7,500,000,000 in 18 or 20 months. That is impossible.

Mr. GARNER. Are you through, Mr. Chairman?

The CHAIRMAN. For the time being, I am, until you ask another unreasonable question.

Mr. GARNER. I did not ask the Secretary of the Treasury whether he believed we ought to levy taxes at the present time for the purpose of paying off those obligations. I did not ask him that.

The CHAIRMAN. I so understood you.

Mr. GARNER. I asked the Secretary about the estimate he had made for the next fiscal year and if he did not think it was sound business policy to levy sufficient taxes to pay them, in view of the fact that the receipts of the Treasury during the next fiscal year due to the result of the war, would amount to between six and eight hundred million dollars or almost as much as you would have to pay out; and also, if it was not sound business procedure to pay as we went, rather than to continue to get additional money by certificates, and he said it was.

Now, Mr. Bacharach, you started to ask me a question.

Mr. BACHARACH. I thought, probably, from the way you were speaking, you thought we ought to have a new internal-revenue bill every year.

Mr. GARNER. No, sir; here is what I asked the Secretary and I think this is a sound policy for the Congress to pursue, if you will allow me to say so: To levy in this bill sufficient permanent taxes and declare them to be permanent, as far as you can by law, to cover the ordinary expenses of the Government, and then whatever extra expense there may be for this year, I would levy a temporary tax for the purpose of taking care of that and let those taxes expire at the end of the year. That is what I would do.

The CHAIRMAN. Will you permit me in answer to that statement to say that when witnesses were before the committee during our

hearings, Mr. Garner would say, "If you will get those Republican heathens to join with us we will cut these taxes out of this law," and now he proposes to put them back in again or to increase them.

Mr. HAWLEY. Mr. Secretary, you have estimated here \$545,000,000 for railroad settlements. The Director General of the Railroads was here the other day and he stated that they could not possibly arrange for the settlement of some of these claims before the end of 1922. To the extent that such claims may go into the fiscal year beginning July, 1922, that estimate would be reduced, would it not?

Secretary MELLON. Yes, for the fiscal year 1922.

Mr. LONGWORTH. May I also say in that connection, Mr. Secretary, that this morning the chairman of the Interstate Commerce Commission was here and said that under section 204 of the transportation act they estimated that \$5,000,000 was still due in full settlement of all claims; and under section 209, \$596,000,000.

Secretary MELLON. That would be for betterments or the guaranty?

Mr. LONGWORTH. That is for betterments, yes. He stated that already there had been paid \$426,000,000, and stated that a settlement in full would only require \$169,723,000. So that that amount being carried in your estimate of \$500,000,000, at the end of this fiscal year all claims of the railroads against the Government would be fully settled.

Secretary MELLON. There is the proposed funding of the betterments for the railroads; that is, extending their time so that the \$500,000,000 will not be received.

Mr. LONGWORTH. There has already been paid \$426,000,000, which only leaves, in round numbers, \$170,000,000.

Secretary MELLON. I do not understand that the \$426,000,000, is out of the \$500,000,000.

Mr. LONGWORTH. So the chairman of the Interstate Commerce Commission stated.

Mr. TREADWAY. He understood that had already been paid by the Treasury.

Secretary MELLON. That is on account of the guaranty. The betterment obligations of the railroads will be funded. Some little part of it has already been spent.

Mr. LONGWORTH. He said specifically, in reply to a question which I asked him, that after the \$170,000,000 had been paid the entire debt of the Government to the railroads would be wiped out.

Secretary MELLON. The director general?

Mr. LONGWORTH. I am only speaking of the guaranty. The director general said that he had already settled claims filed which amounted to \$237,000,000, and that the actual cost of the settlement was \$74,000,000. That wiped out the \$237,000,000.

Secretary MELLON. Yes, sir.

Mr. LONGWORTH. He also stated that the claims which he expected would be filed would total \$1,100,000,000 and that if they could be settled on the same basis, as he expected, the cost would be \$33,000,000, in round numbers.

Secretary MELLON. I do not understand those figures.

Mr. LONGWORTH. That he had a fund on hand of \$141,000,000 and that the cost of settlement in full would be \$188,000,000. If you add \$188,000,000 to \$170,000,000 you have \$358,000,000 which absolutely wipes out all indebtedness of the Government to the rail-

roads. If that is true, having an estimate of \$550,000,000 for this year, it would not have to be raised by taxation after this year?

Secretary MELLON. I think those estimates are not ample. From what I have been able to gather from the condition of the accounts of the railroads, it is going to take \$500,000,000 for this funding of additions and betterments and for the extension of time to the railroads on this item. Now, I do not know how those figures are made up exactly.

Mr. LONGWORTH. Those are the figures of the director general and of the chairman of the Interstate Commerce Commission.

Secretary MELLON. I understand.

Mr. LONGWORTH. The chairman of the Interstate Commerce Commission stated positively this morning that \$170,000,000 more would absolutely wipe out all indebtedness of the Government under the guaranty provision of the transportation act. I asked the specific question of Mr. Davis the other day, whether so far as his department was concerned, any taxes raised in order to pay any indebtedness of the Government to the railroads under his estimate two years from now would be superfluous and he said "absolutely."

Secretary MELLON. Of course, those are just estimates based on the settlements he has made, but you can not take it for granted that all the settlements will come out on the same basis. For the fiscal year 1923 it is estimated that there will be relatively small payments to make to the railroads as against estimated payments in the fiscal year 1922 of \$545,000,000; payments will probably have tapered off to a small amount.

Mr. LONGWORTH. The only point I have in mind, Mr. Secretary, is whether we are justified, under the statements of the director general and the chairman of the Interstate Commerce Commission, in providing in a bill which we assume is raising permanent taxes for the Government or for some years to come an amount which would be necessary to wipe out, if it were necessary this year, the debt of the Government to the railroads—whether it would be justified in a year or so afterwards when there was no debt to the railroads, when it had been completely satisfied?

Dr. ADAMS. Is it your understanding, Mr. Longworth, from the testimony of Mr. Clark, that the \$380,000,000 should be included in the estimate of \$545,000,000?

Mr. LONGWORTH. I think the \$550,000,000 will completely or practically completely wipe out all the debt to the railroad companies. As I understand, of the \$550,000,000 estimated by the Secretary, \$202,000,000 is asked for by the Interstate Commerce Commission and \$348,000,000 by the Director General of Railroads. The chairman of the Interstate Commerce Commission has said that \$170,000,000 will completely wipe out all indebtedness in his department.

Mr. HAWLEY. \$175,000,000?

Mr. LONGWORTH. \$170,000,000. There will be nothing due the railroads under the transportation act after this year. If we take the \$330,000,000 which is claimed by the Director General of Railroads will fully settle all claims, so far as he is concerned, with the railroads, the \$550,000,000 practically covers all the debt that the Government owes to the railroads now and will satisfy the debt in full.

Mr. GILBERT. There will probably be some hangovers.

Mr. LONGWORTH. Very small.

Mr. GILBERT. Probably small. Against that the Secretary recommends, as stated on page 11 of the statement, to offset that reduction in expenditure the complete repeal of the transportation tax effective January 1, 1923, and a further reduction in the surtaxes.

Mr. LONGWORTH. I am only speaking of the actual expenditures. In other words, if we provide in a tax bill a sum equivalent to \$550,000,000 which, while admittedly necessary this year to pay the railroads, will not be necessary in after years.

Mr. GILBERT. We really look beyond June 30, 1922, because of the shrinkage in receipts and the further reductions suggested.

Mr. LONGWORTH. That is so far as the estimate of receipts is concerned?

Mr. GILBERT. Yes, sir.

Mr. LONGWORTH. That is a different thing.

Mr. FREAR. So far as our consideration of the excess profits tax is concerned, there [exhibiting] is a sheet which has come to every member of the committee this morning, I assume, and as nearly as I can determine it is a comparison of the excess profits tax with the flat rate on the increased normal tax and shows how it will affect the small corporations of the country if the change is made. I want to first ask, with the aid of those who can advise, if there is any question of correctness apparent upon the face of it as submitted to the committee. Perhaps you understand that this statement has been prepared by a Mr. Howard Beck, a public accountant of Michigan.

Mr. HAWLEY. A high-grade fellow?

Mr. FREAR. I assume so, coming from that State.

Mr. COPLEY. He must be.

Mr. FREAR. Of course, I do not ask for a comparison generally, but, in substance, is it a correct comparison, apparently?

Mr. CRISP. If I may suggest, Mr. Frear, why not let the Secretary answer that later?

Mr. FREAR. I will be glad to have him do that, instead of answering at this time.

Mr. TILSON. Let him analyze that statement.

(An analysis of the table by the Government actuary follows, with a copy of the table showing the actuary's corrections:)

Memorandum for the Secretary.

The table, prepared by Mr. H. C. Beck, submitted to me for verification, is herewith returned. The computations have all been checked and have been found to be correct, except where noted. Eleven errors have been found, five in the 33½ per cent class and six in the 50 per cent class. (Errors are printed in italics with corrected figures immediately above.)

This table is made in such a form as to distort the facts. It makes it appear that the proposed change in the law will cause a majority of concerns to pay more tax. This is clearly not so. Returns under the present law would produce over 27 per cent more revenue than returns under the proposed law. In the case of a concern paying more tax under the proposed law, it is seldom that this increase in dollars is great, although in percentage it may seem large.

The distortion in the table is caused by advancing by very small steps the columns showing the income in percentage of capital at the beginning of the table and increasing these steps toward the end. If these steps increased uniformly by 5 per cent from the first to the last column showing incomes of, say, 75 per cent, the heavy line showing the limits where the proposed law would tax heavier than the present, would run more regularly, and the table would appear without distortion.

Jos. S. McCoy, *Government Actuary.*

Invested capital.	Income of 5 per cent on capital.		Income of 6 per cent on capital.		Income of 8 per cent on capital.		Income of 10 per cent on capital.		Income of 15 per cent on capital.		Income of 20 per cent on capital.		Income of 25 per cent on capital.		Income of 33 1/3 per cent on capital.		Income of 50 per cent on capital.	
	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.	Tax under present law.	Tax under proposed law.
\$5,000	None.	\$37.50	\$45	None.	None.	\$60	None.	\$75	None.	\$112.50	None.	\$150	None.	\$187.50	None.	\$250	\$50	\$37
10,000	None.	75.00	90	None.	None.	120	None.	150	None.	225.00	None.	300	\$50	375.00	\$133.33	500	750	750
15,000	None.	112.50	135	None.	None.	180	None.	225	\$25	337.50	\$100	450	175	562.50	588.00	750	1,125	1,125
20,000	None.	150.00	180	None.	None.	240	None.	300	100	450.00	200	600	444	750.00	1,210.67	1,000	2,744	1,500
25,000	None.	187.50	225	None.	None.	300	None.	375	175	562.50	300	750	875	937.50	1,833.33	1,250	3,750	1,875
35,000	None.	262.50	315	\$30	150	420	150	525	325	787.50	716	1,050	1,521	1,312.50	2,982.67	1,750	5,516	2,625
50,000	\$50	375.00	450	200	300	600	300	750	640	1,125.00	1,340	1,500	2,490	1,875.00	4,406.67	2,500	8,240	3,750
75,000	175	562.50	675	400	550	900	550	1,125	1,330	1,687.50	2,380	2,250	4,105	2,812.50	6,980.00	3,750	12,730	5,625
100,000	300	750.00	900	600	800	1,200	800	1,500	2,020	2,250.00	3,420	3,000	5,720	3,750.00	9,533.33	5,000	17,220	7,500
150,000	550	1,125.00	1,350	1,000	1,300	1,800	1,300	2,250	3,400	3,375.00	5,500	4,500	8,950	5,625.00	14,700.00	7,500	26,200	11,250
200,000	800	1,500.00	1,800	1,400	1,900	2,400	1,900	3,000	4,780	4,500.00	7,580	6,000	12,180	7,500.00	19,846.67	10,000	35,180	15,000
250,000	1,050	1,875.00	2,250	1,800	2,600	3,000	2,600	3,750	6,150	5,625.00	9,560	7,500	15,410	9,375.00	24,983.33	12,500	44,160	18,750
300,000	1,300	2,250.00	2,700	2,200	3,600	4,200	3,600	4,500	7,540	6,750.00	11,740	9,000	18,640	11,250	30,140.00	15,000	53,140	22,500
350,000	1,550	2,625.00	3,150	2,600	4,020	4,800	4,020	5,250	8,920	7,875.00	13,820	10,500	21,570	13,125	35,286.67	17,500	62,120	26,250
400,000	1,800	3,000.00	3,600	3,000	4,700	5,600	4,700	6,000	10,300	9,000.00	15,800	12,000	25,100	15,000.00	40,433.33	20,000	71,100	30,000
500,000	2,300	3,750.00	4,500	4,000	6,060	7,200	6,060	7,500	13,060	11,250.00	20,960	15,000	31,560	18,750.00	50,726.67	25,000	89,060	37,500
750,000	3,550	5,625.00	6,750	5,800	9,000	10,800	9,000	11,250	19,960	16,875.00	30,460	22,500	47,710	28,125.00	76,490.00	37,500	133,900	56,250
1,000,000	4,800	7,500.00	9,000	7,800	12,000	14,400	12,000	15,000	26,860	22,500.00	40,860	30,000	63,860	37,500.00	102,183.33	50,000	178,860	75,000
1,500,000	7,300	11,250.00	13,500	11,800	18,000	21,600	18,000	22,500	40,660	33,750.00	61,660	45,000	96,160	56,250.00	153,660.00	75,000	268,660	112,500
2,000,000	9,800	15,000.00	18,000	15,800	24,000	28,800	24,000	28,460	54,460	45,000.00	82,460	60,000	128,460	75,000.00	205,136.67	100,000	358,460	150,000
3,000,000	14,500	21,750.00	27,000	23,800	39,800	47,760	39,800	45,000	82,260	67,500.00	120,260	90,000	190,260	112,500.00	313,926.67	150,000	538,260	225,000
5,000,000	24,800	37,500.00	45,000	39,800	67,260	80,710	67,260	75,000	137,260	112,500.00	207,260	150,000	322,260	187,500.00	513,926.67	250,000	897,260	375,000
10,000,000	49,600	75,000.00	90,000	79,600	120,000	144,000	120,000	150,000	275,260	225,000.00	415,260	300,000	645,260	375,000.00	1,028,583.33	500,000	1,765,260	750,000

Mr. FREAR. Yes. It is a very interesting statement.

Mr. GARNER. Mr. Secretary, would you mind putting in the record at this point, having Mr. Gilbert or some of your assistants make up a statement showing our total indebtedness, including the permanent and floating debt, so that the House may have before it the entire indebtedness of the Government and when we, so that we may discuss the further advisability of levying a tax now with a view to liquidating the floating debt or the interest on our permanent debt?

Secretary MELLON. I will do that, sir.

Preliminary statement of the public debt July 31, 1921.

[On the basis of daily Treasury statements.]

Total gross debt June 30, 1921.....	\$23, 977, 450, 552. 54
Public-debt receipts July 1 to 31, 1921.....	\$24, 071, 183. 57
Public-debt disbursements July 1 to 31, 1921....	230, 284, 727. 44

Decrease for period.....	206, 213, 543. 87
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Total gross debt July 31, 1921.....	23, 771, 237, 008. 67
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NOTE.—Total gross debt before deduction of the balance held by the Treasurer free of current obligations, and without any deduction on account of obligations of foreign Governments or other investments, was as follows:

Bonds:

Consols of 1930.....	\$599, 724, 050. 00	
Loan of 1925.....	118, 489, 900. 00	
Panama's of 1916-1936.....	48, 954, 180. 00	
Panama's of 1918-1938.....	25, 947, 400. 00	
Panama's of 1961.....	50, 000, 000. 00	
Conversion bonds.....	28, 894, 500. 00	
Postal savings bonds.....	11, 774, 020. 00	
		\$883, 784, 050. 00
First Liberty loan.....	1, 952, 225, 500. 00	
Second Liberty loan.....	3, 315, 919, 350. 00	
Third Liberty loan.....	3, 610, 574, 600. 00	
Fourth Liberty loan.....	6, 353, 927, 200. 00	
		15, 232, 646, 650. 00

Total bonds.....	16, 116, 430, 700. 00
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NOTES:

Victory Liberty loan.....	3, 856, 291, 150. 00
Treasury notes—Series A-1924.....	311, 191, 600. 00

Treasury certificates:

Tax.....	1, 527, 514, 000. 00	
Loan.....	794, 201, 500. 00	
Pittman Act.....	209, 375, 000. 00	
Special issues.....	32, 854, 450. 00	
		2, 563, 944, 950. 00

War savings securities (net cash receipts).....	687, 648, 148. 14
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Total interest-bearing debt.....	23, 535, 506, 548. 14
Debt on which interest has ceased.....	9, 796, 740. 26
Noninterest-bearing debt.....	225, 933, 720. 27

Total gross debt.....	23, 771, 237, 008. 67
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Preliminary statement of the public debt Aug. 3, 1921.

[On the basis of daily Treasury statements.]

Total gross debt July 31, 1921.....	\$23, 771, 237, 008. 67
Public debt receipts Aug. 1 to 3, 1921.....	\$358, 737, 032. 80
Public debt disbursements Aug. 1 to 3, 1921..	10, 695, 420. 49

Increase for period.....	348, 041, 612. 31
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Total gross debt Aug. 3, 1921.....	24, 119, 278, 620. 98
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NOTE.—Total gross debt before deduction of the balance held by the Treasurer free of current obligations and without any deduction on account of obligations of foreign Governments or other investments was as follows:

Bonds:

Consols of 1930.....	\$599, 724, 050. 00	
Loan of 1925.....	118, 489, 900. 00	
Panama's of 1916-1936.....	48, 954, 180. 00	
Panama's of 1918-1938.....	25, 947, 400. 00	
Panama's of 1961.....	50, 000, 000. 00	
Conversion bonds.....	28, 894, 500. 00	
Postal savings bonds.....	11, 774, 020. 00	\$883, 784, 050. 00
First Liberty loan.....	1, 952, 225, 500. 00	
Second Liberty loan.....	3, 315, 917, 550. 00	
Third Liberty loan.....	3, 610, 568, 150. 00	
Fourth Liberty loan.....	6, 353, 879, 600. 00	
		15, 232, 590, 800. 00
Total bonds.....		16, 116, 374, 850. 00

Notes:

Victory Liberty loan.....	3, 850, 226, 150. 00
Treasury notes—Series A-1924.....	311, 191, 600. 00

Treasury certificates:

Tax ¹	\$1, 638, 534, 000. 00	
Loan ¹	1, 039, 782, 500. 00	
Pittman Act.....	209, 375, 000. 00	
Special issues.....	32, 854, 450. 00	
		2, 920, 545, 950. 00

War savings securities (net cash receipts).....	686, 766, 589. 44
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Total interest-bearing debt.....	23, 885, 105, 139. 44
Debt on which interest has ceased.....	8, 536, 756. 27
Noninterest-bearing debt.....	225, 636, 725. 27

Total gross debt.....	24, 119, 278, 620. 98
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Mr. GARNER. Let me ask in this connection whether you have any purpose in view that you can suggest to the committee about refunding our floating debt or any part of it?

Secretary MELLON. I have no further suggestions to make at this time. As you probably know, the Treasury has already outlined its program for dealing with the short-dated debt in my letter of April 30 to the chairman, and the first offering of Treasury notes pursuant to that program has already been made.

Mr. GARNER. About how much is our floating debt at the present time? Could you give it in round figures?

Secretary MELLON. The floating debt at this time is something between \$2,500,000,000 and \$2,750,000,000. Then, within two years comes the additional Victory loan, which will increase that to about \$7,500,000,000.

¹ Does not include \$17,790,500 subscriptions allotted for certificates of indebtedness, series T M 2, 1922 (\$5,871,000), and series B, 1922 (\$11,919,500), telegraphic reports as to payments of which did not reach the Treasury on Aug. 3, 1921.

Mr. GARNER. When do the Treasury savings stamps become due?

Secretary MELLON. The first series on January 1, 1923. They are also being presented now in large amounts.

Mr. GARNER. Counting the Victory loan and the savings stamps, the total will be how much in January, 1923?

Mr. GILBERT. You are speaking as of the present?

Mr. GARNER. Yes, sir.

Mr. GILBERT. About \$7,500,000,000 of debt, including all of those items, matures between now and June 30, 1923.

Mr. GARNER. Mr. Secretary, is it, in your opinion, a safe and sound economic policy for the Government to continue borrowing from month to month and from quarter to quarter \$7,500,000,000?

Secretary MELLON. No; but the Treasury has already inaugurated a program for the short-term refunding of the early maturing debt, and for the long-term refunding we will have to wait until conditions are more favorable. The tendency of the rates for money is in the direction of a more favorable period.

Mr. GARNER. It has been suggested, Mr. Secretary, by a good many, that, in view of the fact that bonds were sold to the people as a whole and as a war measure—appealed to their patriotism and they invested—there was a duty the Congress owed to those people, by some method of refunding, to bring these obligations up to par. What is your viewpoint on that?

Secretary MELLON. That point will be arrived at naturally. They will enhance in value to par, and when conditions are favorable for refunding, those bonds will be taken care of.

Mr. GARNER. You mean under the present law in the course of time they will go to par?

Secretary MELLON. Yes, sir.

Mr. GARNER. I think that is true, as they near their period of maturity naturally they approach the par value.

Secretary MELLON. But they are gradually increasing in value; there has been a gradual increase from the extreme depression.

Mr. GARNER. In proportion to your floating debt so is the depreciation in your permanent outstanding debt?

Secretary MELLON. No. The factors bearing on the value of the Liberty bonds and on the rates of money for taking care of the floating debt are to a very great extent the conditions of the industries in the country, the question of the accumulation of capital, etc. You can not say that the proportion of the floating debt is the factor that fixes the price.

Mr. GARNER. But it tends in that direction?

Secretary MELLON. It may have some such tendency.

Mr. GARNER. You have this year to increase your floating debt by virtue of the failure of Congress to furnish you sufficient money to meet contemplated expenditures, and to just that extent does it not affect the value of the bonds?

Secretary MELLON. It would, to a certain extent, retard the recovery in value.

Mr. GARNER. If the Congress failed to give you the amount of money which you think is necessary in 1922 and 1923, you will have to issue Treasury certificates, which would not only increase the floating debt, which must be funded at some time, but would tend to lower the value of the outstanding Liberty bonds?

Secretary MELLON. Yes, sir. Of course, that might be affected by other existing factors.

Mr. GARNER. I understand, but it has that tendency?

Secretary MELLON. The tendency would be in that direction.

The CHAIRMAN. Unless future conditions change?

Secretary MELLON. Yes, sir.

The CHAIRMAN. Is it not a fact, Mr. Secretary, that because of the war there were twenty odd billion dollars of securities thrown on the market by the Government and because of the unsettled conditions created by the war all securities in the country have depreciated, and those are the two moving factors which have caused the depreciation of the outstanding securities, the tremendous amount of securities thrown on the market and the unusual conditions that we find ourselves in after the Great War?

Secretary MELLON. Yes, sir.

The CHAIRMAN. Those are the two principal reasons for depreciation on the money market?

Secretary MELLON. Yes, sir.

The CHAIRMAN. Always when money is high, securities depreciate.

Secretary MELLON. Yes, sir.

The CHAIRMAN. And whenever the time arrives, which we hope will be in a very short time, that money is cheap, these securities will advance in value?

Secretary MELLON. Yes, sir.

The CHAIRMAN. The tendency now is in that direction?

Secretary MELLON. Yes, sir; very much, indeed.

Mr. GREEN. Mr. Gilbert, in connection with the statement you made a short time ago, do I understand that if we were to raise a sufficient sum to meet the estimates carried in your statement that without repealing the transportation tax, at least only providing for its partial repeal one year and its entire repeal two years from now, making allowance for all the unusual income we have received, that in the event the transportation tax was ultimately repealed at the end of two years the amount which we would raise would probably give us more than sufficient for the following years?

Mr. GILBERT. That statement has not been made. The revenues for the present fiscal year will be larger for various reasons. In the first place, they contain the two installments of the income and profits tax based on existing law and based on 1920 business. There will be a shrinkage in the ensuing fiscal year of several hundred million dollars. No one can tell at this time how much it will be. That will reduce, without any change in the law, the revenue in the fiscal year 1923.

Mr. GREEN. I realize that my question was somewhat confusing, and I can put it in a simpler form, not involving so many matters.

If we should repeal the transportation tax at the end of two years, and then make allowance for the matters which you have just mentioned, the decline in the revenue, would that loss approximately balance these extraordinary items that we have now to pay the railroads and some other matters mentioned here?

Mr. GILBERT. I should say it would. Taking into consideration the back taxes and other items and the expected shrinkages, I should say the result would be a close approximation to the needs of 1923. It is impossible, of course, to state what the expenditures for 1923

will be. It depends on many factors which are not under the control of the Treasury.

Mr. GREEN. Mr. Secretary, do you care to express an opinion as to the advisability of the bill being so framed that the amount of the floating debt for the next year would have to be increased or probably it would be necessary to increase it?

Secretary MELLON. I think it would be desirable to avoid increasing the floating debt, if it is possible to do so.

Mr. GILBERT. The floating debt in the hands of the public is now \$2,700,000,000. It may fluctuate somewhat in any event.

Mr. GREEN. I can understand why, in your opinion, that ought to be avoided, if practicable and possible.

Mr. GARNER. Permit me to ask a question. If Congress should repeal the excess-profits tax to take effect January 1, 1923, would you not get sufficient funds from that source to meet these so-called emergencies that Mr. Green has referred to?

Mr. GILBERT. The estimates which have been given——

Mr. GARNER (interposing). I understand that your estimates show how it would be, but I was asking you a question of fact. If Congress should continue the excess-profits tax to January 1, 1923, the receipts would meet the conditions referred to by Mr. Green?

Secretary MELLON. You mean without providing the additional tax on corporations?

Mr. GARNER. Whatever Congress might decide as to reducing the \$2,000 or increasing it.

Secretary MELLON. It does not make very great difference. This substitution of the 5 per cent will be approximately the substitute for the excess-profits tax.

Mr. GARNER. But if we did continue the excess-profits tax, with an increase in the normal tax and repealed the excess-profits tax at the end of 1922, January 1, 1923, it would take care of the situation referred to?

Mr. GILBERT. The revenue from the excess-profits tax is shrinking, and it is difficult to forecast what it would produce in the two years. Probably not more than the suggested flat tax.

Mr. GARNER. It would only be in two years and if the country knew that the tax was to cease on January 1, 1923, there would not be such a tendency to increase the capital stock to the point where there would not be as much excess-profits tax.

Mr. GILBERT. The suggestion has been made that the 5 per cent flat tax will about cancel the reduction in revenue from the repeal of the excess-profits tax. Perhaps the greatest objection to the excess-profits tax is the administrative difficulty.

Mr. FREAR. Your statement does not quite correspond with the statement we heard last night. It was stated last night that unless the exemption of \$2,000 on corporations was repealed that we will only receive \$275,000,000, an increase of the 5 per cent normal as compared with \$450,000,000 from the excess-profits tax which would be a loss of \$175,000,000 unless you repeal the exemption of \$2,000.

The CHAIRMAN. Any such sum determined upon is essentially an estimate, because nobody knows what the business of the country will produce this year.

Mr. FREAR. We are dealing entirely with estimates.

Mr. LONGWORTH. Mr. McCoy, as I understand, the estimate, with the repeal of the \$2,000 exemption, would be a loss of from \$70,000,000 to \$125,000,000 a year?

Mr. FREAR. No. If you do not repeal the exemption, but simply add the 5 per cent, which is one of the mooted questions, of course we will lose \$175,000,000, if you estimate it upon \$450,000,000 excess-profits tax. That is Mr. McCoy's statement.

Mr. MCCOY. The net income from corporations will be something under \$5,000,000,000—\$4,800,000,000. A tax on that at 15 per cent—

Secretary MELLON. Take 5 per cent.

Mr. MCCOY. You can not very well take 5 per cent and compare it. Fifteen per cent would amount to \$720,000,000, against about \$850,000,000 from the present law.

Mr. FREAR. Does that take into consideration the \$2,000 exemption? There would be 221,000 corporations this year with \$300 as an average, which makes a little less than that.

Mr. MCCOY. There were only 225,000 taxpaying corporations in 1920, 230,000 in 1919, and 202,000 in 1918.

Dr. ADAMS. Three hundred and seventeen thousand have reported income. Now, when you take into consideration the \$2,000 exemption in the act, that reduces these taxable returns to 202,000 for 1918.

Mr. MCCOY. Then they are entirely different from the printed statistics.

Dr. ADAMS. They were taken from the printed statements of income statistics.

Mr. MCCOY. I recall very definitely that the income statistics show 317,000 corporations reporting income.

Dr. ADAMS. There were 317,000 making returns, and 202,000 subject to tax.

The CHAIRMAN. About 119,000 or 120,000 of them were not taxable.

Mr. GARNER. Mr. Chairman, may I ask where you got this information? Mr. Frear speaks of you having gotten it last evening.

Mr. FREAR. We were discussing it informally last evening. There was not any record of it. We were just discussing informally what these receipts might be and then making comparisons.

Mr. GARNER. It is quite interesting information.

GENERAL INDEX.

INDEX TO NAMES.

A.

	Page.
Adams, T. S., of the Treasury Department	384, 446
American Chamber of Commerce of the Philippine Islands, income tax	27
American Bottlers of Carbonated Beverages, carbonated beverages	218, 223
American Electric Railway Association, income tax	99, 101
American Federation of Labor, land values and sales tax	94, 96
American Fruit Juice Producers' Association, grape juice	232
American Gas Association, income tax	99, 101
American Railway Express Co., express transportation	210
Appleby, Hon. Frank T., a Representative in Congress from New Jersey, stamps on bank checks	365
Associated Retail Confectioners of the United States, candy and confectionery ..	256

B.

Berman, Samuel, New York City, moving-picture films	309
Blair, Frank A., Chicago, Ill., proprietary medicines	316
Blair, Hon. David H., Commissioner of Internal Revenue, additional collection districts	413
Bodey, A. N., manufacturing confectioner, cough drops	258
Bowe, Bruce, Richmond, Va., land values	97
Brady, William A., New York City, motion-picture films	304
Bright, Frank S., Washington, D. C., settlement committee	141
Brylawski, A. Julien, Washington, D. C., motion-picture films	303
Bureau of Commercial Economics, Washington, D. C., motion-picture films ..	311
Byrnes, Hon. James F., a Representative in Congress from South Carolina, car- bonated beverages	228

C.

Cellarius, H. F., Cincinnati, Ohio, building and loan associations	32
Chamber of Commerce of the United States, sales tax	137
Chautauqua and Lake Erie Fruit Growers' Association, fruit juices	232
Clark, Hon. Edgar E., chairman of the Interstate Commerce Commission, pay- ments to railroads	434
Codman, John S., Boston, Mass., land values	73
Colquitt, Neyle, Washington, D. C., works of art	330
Cook, Levi, Washington, D. C., cereal beverages	230
Curtiss, J. W., president A. G. Spaulding & Co., New York City, athletic goods ..	241

D.

De Ford, U. C., Youngstown, Ohio, estate tax	191, 197
Detroit (Mich.) Real Estate Board, real estate corporations	128
De Veyra, Hon. James C., Resident Commissioner from Philippine Islands, income tax	22

E.

	Page.
Ekern, Herman L., Madison, Wis., mutual insurance companies.....	212
Emery, James E., Washington, D. C., income tax, board of adjusters.....	56
Erie County (Pa.) Grape Growers, grape juice.....	232

F.

Farmers' National Council, income tax.....	5
Fillmore, Edward, New York City, fur manufactures.....	262
Fish, Hon. Hamilton, jr., a Representative in Congress for the State of New York, cough drops.....	261
Fowler, J. F., New York City, tobacco, cigars, and cigarettes.....	363
Frazier, Frank E., supervisor of collectors' offices, Bureau of Internal Revenue, additional collection districts.....	420

G.

Gadsden, Philip H., public service corporations.....	101
Gerner, Hon. Fred B., a Representative in Congress from Pennsylvania, cough drops.....	260
Gielow, H. T., Chicago, Ill., admissions tax.....	339
Gilbert, S. P., jr., Assistant-Secretary of the Treasury.....	384, 446

H.

Hand, Ira, motor boats and yachts.....	295
Hardy, Hon. Guy U., a Representative in Congress from Colorado, income tax..	98
Haymaker, K. V., South Bend, Ind., income tax.....	37
Hill, W. V., San Francisco, Calif., public service corporations.....	99
Hoffman, Jacob B., Philadelphia, Pa., fur manufactures.....	274
Holley, Francis, Washington, D. C., motion-picture films.....	311
Homans, Robert, Boston, Mass., real estate corporations.....	123, 127
Hord, John S., Chevy Chase, Md., Americans residing in Philippine Islands..	30
Hudson River Fruit Exchange, fruit juices.....	232

L.

Landreth, C. P., Philadelphia, Pa., purchase tax.....	103, 111
Larter, Harry C., New York City, jewelry.....	280
Lawley, George F., Boston, Mass., motor boats and yachts.....	283
Le Roy, Edward A., jr., income tax.....	9, 14
Liggett, Walter W., Washington, D. C., land values.....	83, 89
Lindsay, Samuel McCune, income tax.....	54
Lyman, Charles A., Washington, D. C., excess-profits tax.....	183

M.

McCaffrey, Thomas H., Philadelphia, Pa., income tax.....	36
McCoy, Joseph S., Government actuary, Treasury Department.....	384, 446
McFadden, Hon. Louis T., a Representative in Congress from Pennsylvania, tax-exempt securities.....	154
McKenzie, H. C., Walton, N. Y., excess-profits tax.....	171
Marsh, Benjamin C., income tax.....	5
Marx, H. S., express transportation.....	205, 210
Mellon, Hon. Andrew W., Secretary of the Treasury.....	384, 446
Classification of estimated expenditures, 1922.....	448
Estimated miscellaneous internal revenue.....	449

Mellon, Hon. Andrew W., etc.—Continued.	Page.
Estimated receipts and expenditures, 1922.....	447
Estimated receipts from internal revenue and customs.....	449
Public debt, preliminary statement of.....	461, 462
Miller, Frank P., Downingtown, Pa., purchase tax.....	115
Mills, Hon. Ogden L., a Representative in Congress from the State of New York, spendings tax.....	144, 153
Mitchell, Henry S., New York City, works of art.....	318
Moss, Frank J., Kansas City, Mo., consumption tax.....	39

N.

National Association of Engine and Boat Manufacturers (Inc.), motor boats and yachts.....	291
National Association of Retail Druggists, soft drinks and medicines.....	238
National Automobile Chamber of Commerce, excise tax.....	240
National Board of Farm Organizations, Washington, D. C., excess-profits taxes.....	184
National Committee of the Fur Industry of the United States, fur manufactures.....	269
National Confectioners' Association, candy and confectionery.....	254
National Garment Retailers' Association, fur manufactures.....	277
Retail Fur Division of, fur manufactures.....	278
National Grape Growers' Association, grape juice.....	232
National Electric Light Association, income tax.....	99, 101
National Foreign Trade Council, income tax.....	9, 14
National League of Commission Merchants of the United States, sales tax.....	139
National Manufacturers' Association, corporations tax.....	56, 71

O.

Owens, Junior, Washington, D. C., carbonated beverages.....	218, 223
---	----------

P.

People's Reconstruction League, income tax.....	5
Philippine Legislature, resolution of.....	27
Piehler, Otto J., Boston, Mass., fur manufactures.....	272
Pound, Geo. W., representing music industries of America, musical instruments.....	314
Proprietary Association, excise tax on prepared package medicines.....	316

Q.

Quinn, John, brief against sales of works of art.....	321
---	-----

R.

Ramseyer, Hon. C. William, a Representative in Congress from Iowa, inheritance tax.....	200
Rogers, Saul E., New York City, motion-picture films.....	296
Russell, Samuel, statement on Senate bill 2331.....	369
The single tax.....	376

S.

Satterlee, Hugh, New York City, capital-stock tax.....	341, 353, 362
Smith, W. W., Poughkeepsie, N. Y., cough drops.....	261
Southern Michigan Fruit Association, fruit juices.....	232
Stackhouse, W. H., Springfield, Ohio, refunding the war debt.....	129
State Street Exchange, Boston, Mass., real estate corporations.....	127

T.	
Toilet Soap Manufacturers of the United States, soaps and soap powders.....	Page. 317
U.	
United States League of Local Building and Loan Associations, income tax...	32
V.	
Varner, H. B., motion-picture films.....	301
W.	
Wiley, Harvey W., Washington, D. C., editor Good Housekeeping, candy.....	257
Williams, Daniel R., Philippine Islands, income tax.....	24

INDEX TO SUBJECTS.

A.	
ADMISSIONS TAX:	
Exemption of disabled ex-service men.....	339
Gielow, H. T., exemption of disabled ex-service men.....	339
Americans residing in foreign countries.....	9
Americans residing in the Philippine Islands.....	22
Hord, John S., income tax.....	30
Resolution of Philippine Legislature, income tax.....	27
Williams, Daniel R., income tax.....	24
Appendix.....	369
Art (<i>see</i> Works of art):	
Public opinion against tax on.....	325
Sales of, should not be taxed.....	322
Should not be subject to any tax.....	328
Athletic goods.....	241
B.	
BEVERAGES TAX:	
American Fruit Juice Producers' Association, grape juice.....	232
Byrnes, Hon. James F., bottled drinks.....	228
Carbonated beverages.....	218
Cereal beverages.....	230
Cook, Levi, cereal beverages.....	230
Fruit juices.....	232
Grape juice.....	232
National Association of Retail Druggists, soft drinks and medicines.....	238
Owens, Junior, carbonated beverages.....	218
Shreve, Hon. Milton W., fruit juices.....	232
Soft drinks and medicines.....	238
Building and loan associations.....	32
Assets, membership, and number, by States, 1920-21.....	34
Cellarius, H. F., income tax.....	32
Haymaker, K. V., income tax.....	32
McCaffrey, Thomas H., income tax.....	36
Progress of, since 1893.....	34

C.	Page.
Candy and confectionery.....	244
Capital-stock tax:	
Exemption of holding corporations.....	363
History of.....	353
Number of corporations filing returns.....	362
Number of employees in Internal Revenue Bureau division of.....	362
Substitute for.....	358
Carbonated beverages.....	218
Cereal beverages.....	230
Cigars, cigarettes, and tobacco.....	333
Claims in abatement.....	141
Consumption tax.....	39
Contributions to societies and institutions.....	54
Corporations tax.....	56, 71
Cough drops.....	258

D.

Distribution of personal incomes, by sources and by income classes, year 1918..	178
---	-----

E.

ESTATE TAX:	
De Ford, U. C., estate-tax revision.....	191, 197
Ramseyer, Hon. C. William, inheritance tax.....	200
EXCESS-PROFITS TAX:	
Gregerson Bros., Omaha, Nebr., brief.....	190
Lyman, Charles A.....	183
McKenzie, H. C.....	171
EXCISE TAXES:	
Associated Retail Confectioners of the United States, candy and confectionery.....	256
Athletic goods.....	241
Berman, Samuel, motion-picture films.....	309
Blair, Frank A., proprietary medicines.....	316
Bodey, A. N., cough drops.....	258
Brady, William A., motion-picture films.....	304
Brylawski, A. Julien, motion-picture films.....	303
Candy and confectionery.....	244
Colquitt, Neyle, works of art.....	330
Cough drops.....	258
Crounse, William L., toilet soaps and soap powders.....	317
Curtis, J. W., representing A. G. Spaulding & Co., athletic goods.....	241
Gernerd, Hon. Fred B., cough drops.....	260
Fillmore, Edward, fur manufactures.....	262
Fish, Hon. Hamilton, jr., cough drops.....	261
Fuller, Hubert B., Cleveland, Ohio, candy and confectionery.....	244
Fur manufactures.....	262
Halley, Francis, motion-picture films.....	311
Hand, Ira, motor boats and yachts.....	295
Hoffman, Jacob B., fur manufactures.....	274
Jewelry.....	280
Larter, Harry C., jewelry.....	280
Lawley, George F., motor boats and yachts.....	283
Mitchell, Henry S., works of art.....	318

Excise Taxes—Continued.	Page.
Motion-picture films.....	296
Motor boats and yachts.....	283
Musical instruments.....	314
National Association of Engine and Boat Manufacturers (Inc.), motor boats and yachts.....	291
National Confectioners' Association, candy and confectionery.....	254
National Committee of the Fur Industry of the United States, fur manufactures.....	269
National Garment Retailers' Association, fur manufactures.....	277
Piehler, Otto J., fur manufactures.....	272
Pound, Geo. W., musical instruments.....	314
Proprietary medicines.....	316
Quinn, John, brief against taxing sales of works of art.....	321
Rogers, Saul E., motion-picture films.....	296
Smith, W. W., cough drops.....	261
Toilet soaps and soap powder.....	317
Varner, H. B., motion-picture films.....	301
Wiley, Harvey W., candy.....	257
Works of art.....	318
Letters from artists.....	332
Letters from dealers.....	335
Yachts and motor boats.....	283
Exemption of disabled ex-service men from admissions tax.....	339
Expenditures. (<i>See</i> Receipts and expenditures, Government.)	
Explanatory note.....	3
F.	
Films, motion-picture.....	296
Foreign tax laws, summary of.....	18
Fruit juices.....	232
Fur manufactures.....	262
G.	
Government receipts and expenditures (estimated).....	447, 449
Grape-growing and grape-juice industries, relationship of.....	235
Grape juice.....	232
Food value and healthful qualities of.....	237
H.	
Hearings in executive session.....	384
I.	
INCOME TAX:	
American Chamber of Commerce of Philippine Islands, memorial of.....	27
American Federation of Labor, land values and sales tax.....	94, 96
Americans residing in the Philippine Islands.....	22
Bowe, Bruce, land values.....	97
Bright, Frank S., settlement committee and claims in abatement.....	141
Building and loan associations.....	32
Cellarius, H. F., building and loan associations.....	32
Chamber of Commerce of the United States, sales tax.....	137
Claims in abatement.....	141
Codman, John S., land values.....	73
Consumption tax.....	39
Contributions to societies and institutions.....	54

INCOME TAX—Continued.

	Page.
Corporations, tax.....	56, 71
De Veyra, Hon. Jaime C., Americans residing in the Philippine Islands..	22
Emery, James E., corporations tax, board of adjusters.....	56, 71
Farmers National Council, repeal of taxes on consumption.....	5
Gadsden, Philip H., public service corporations.....	101
Hardy, Hon. Guy U., net loss of preceding year.....	98
Hill, W. V., public service corporations.....	99
Homans, Robert, real estate corporations.....	123, 127
Hord, John S., Americans residing in Philippine Islands.....	30
Land values.....	73
Landreth, C. P., purchase tax.....	103, 111
Le Roy, Edward A., jr., Americans residing in foreign countries.....	9, 14
Liggett, Walter W., land values.....	83, 89
Lindsay, Samuel McCune, contributions to societies and individuals....	54
McCaffrey, Thomas H., Building Association League of Pennsylvania....	36
McFadden, Hon. Louis T., tax-exempt securities.....	154
McGrady, E. F., land values and sales tax.....	94
Marsh, Benjamin C., repeal of taxes on consumption.....	5
Miller, Frank P., purchase tax.....	115
Mills, Hon. Ogden L., spendings tax.....	144, 152
Moss, Frank J., consumption tax.....	39
National Foreign Trade Council, Americans residing in foreign countries..	9, 14
National League of Commission Merchants of the United States, sales tax..	139
Net loss of preceding year.....	98
People's Reconstruction League, repeal of taxes on consumption.....	5
Public service corporations.....	99, 101
Purchase tax.....	103, 115
Real estate corporations.....	123, 127
Refunding the war debt.....	129
Resolution of Philippine Legislature.....	27
Sales tax.....	96, 137, 139
Settlement committee.....	141
Spendings tax.....	144
Stackhouse, W. H., refunding the war debt.....	129
State Street Exchange, Boston, real estate corporations.....	127
Tax-exempt securities.....	154
United States League of Local Building and Loan Associations.....	32
Williams, Daniel R., Americans residing in the Philippines.....	24
INSURANCE TAX:	
Ekern, Herman L., mutual insurance companies.....	212
Internal-revenue collection districts..	422
Arranged in order of unit value of work.....	433

J.

Jewelry.....	280
Juices, fruit and grape.....	232

I.

Land values:	
American Federation of Labor, income tax.....	94, 96
Bowe, Bruce, income tax.....	97
Codman, John S., income tax.....	73
Liggett, Walter W., income tax.....	83, 89
McGrady, E. F., income tax.....	94
The single tax.....	376

M.		Page.
Medicines, proprietary.....		316
"Money transaction basis" for taxation, argument in favor of.....		111
Motion-picture films.....		296
Motor boats and yachts.....		283
Musical instruments.....		314
Mutual insurance companies.....		212
N.		
Net loss of preceding year.....		98
P.		
Philippine Islands, Americans residing in.....		22
Piano and phonograph sales, 1914 and 1918, analysis of.....		315
Proprietary medicines.....		316
Public debt, preliminary statement of.....		461, 462
Public service corporations:		
Gadsden, Philip H., income tax.....		101
Hill, W. V., income tax.....		99
Purchase tax:		
Landreth, C. P., income tax.....		103
Miller, Frank P., income tax.....		115
"Money transaction basis" for taxation, argument in favor of.....		111
R.		
Real estate corporations.....		123
Detroit (Mich.) Real Estate Board, income tax.....		128
Homans, Robert, income tax.....	123,	127
Shipman, F. C., Detroit, Mich., income tax.....		128
State Street Exchange, Boston, Mass., income tax.....		127
Receipts and expenditures, Government (estimated):		
Classification of estimated expenditures, 1922.....		448
Miscellaneous internal revenue.....		449
Receipts and expenditures, 1922.....		447
Receipts from internal revenue and customs.....		449
Refunding the war debt.....		129
S.		
Sales tax:		
American Federation of Labor, resolution.....		96
Chamber of Commerce of the United States, income tax.....		137
National League of Commission Merchants of the United States, income tax.....		139
Science and art should not be subject to any tax.....		328
Settlement committee.....		141
Soaps, toilet, and soap powders.....		317
Soft drinks and medicines.....		238
Single tax, the.....		376
SPECIAL TAXES:		
Capital-stock tax.....		341
Exemption of holding corporations.....		363
History of.....		353
Number of corporations filing returns.....		362
Number of employees in Internal Revenue Bureau division of.....		362
Substitute for.....		358

SPECIAL TAXES—Continued.

	Page.
Fowler, J. F., tobacco, cigars, and cigarettes.....	363
Letter of Secretary of Commerce, in re tobacco, cigars, and cigarettes.....	364
Satterlee, Hugh, capital-stock tax.....	341, 353, 362
Tobacco, cigars, and cigarettes.....	363
Spending tax.....	144
STAMP TAXES:	
Appleby, Hon. Frank T., stamps on bank checks.....	365
Stamps on bank checks.....	365
Summary of foreign tax laws.....	18

T.

Tax-exempt securities:

American Farm Bureau Federation.....	163
Kahn, Otto H., income tax.....	162
McFadden, Hon. Louis T.....	154
National Tax Association, resolution, 1920.....	164
New York State Tax Conference, resolution.....	163
Tobacco, cigars, and cigarettes.....	363
Toilet soaps and soap powders.....	317
TRANSPORTATION TAX:	
American Railway Express Co., express transportation.....	210
Marx, H. S., express transportation.....	205

W.

Works of art:

Colquitt, Neyle, excise taxes.....	330
Letters from artists.....	332
Letters from dealers.....	335
Mitchell, Henry S., excise taxes.....	318
Public opinion against tax on.....	325
Quinn, John, excise taxes.....	321
Sales of, should not be taxed.....	322

Y.

Yachts and motor boats.....	283
-----------------------------	-----

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